The Independent
Fiscal Commission NI

More fiscal devolution for Northern Ireland?

Executive Summary

December 2021

Executive Summary

The NI Executive controls most of the spending on public services that happens within Northern Ireland – almost £9 in every £10 of 'identifiable' public spending. Other than rates on businesses and households it has no real substantive powers to vary taxes and raises less than £1 in every £20 of Northern Ireland tax revenue. In that it contrasts to the Scottish and Welsh governments which do have some, limited, tax powers. Our interim report, sets out to explore the case for additional powers over taxation. In doing so it considers the economic context, current fiscal powers, the possible reasons for additional devolution, and the potential risks and rewards from such devolution. It goes on to look at the whole array of UK taxes and reaches some preliminary conclusions regarding which taxes might be the best candidates for devolution and, importantly, those which are less suitable at this point in time.

Context

The NI Assembly, the devolved legislature of Northern Ireland, was established by the **Northern Ireland Act 1998**, in accordance with the principles laid out in the 1998 Good Friday/Belfast Agreement. As a Commission our starting point for considering the potential for additional fiscal powers is the Northern Ireland Act 1998, which outlines the powers of the devolved NI Assembly and NI Executive, operating within a wider UK framework. Table 1 sets out the respective responsibilities of the UK Government and NI Executive in relation to *transferred*, *excepted* and *reserved* matters.

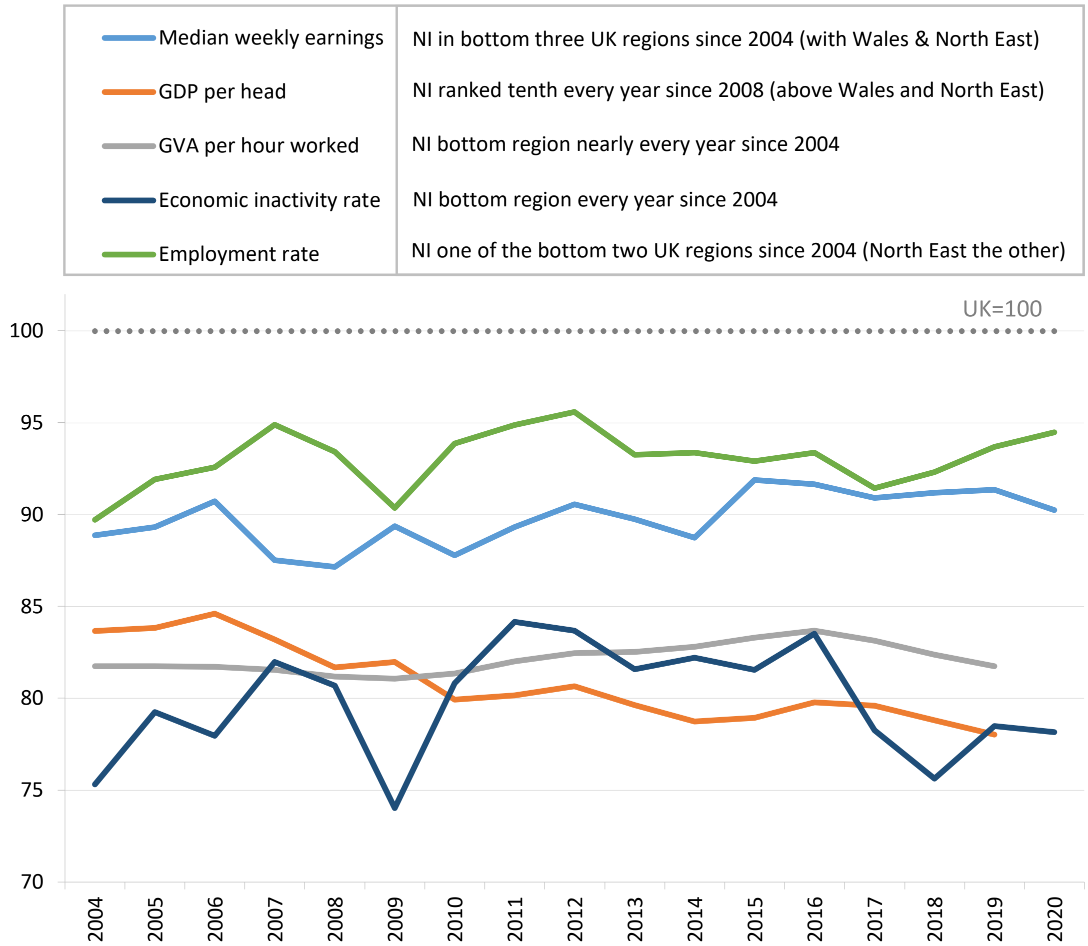
Table 1 The respective responsibilities of the UK Government and NI Executive in relation to transferred, excepted and reserved matters

Transferred matters Issues on which the NI Assembly has full legislative powers:	**Schedule 2** **Excepted matters** HM government retains responsibility for matters of national importance, including:	**Schedule 3** **Reserved matters** These are issues where legislative authority generally rests with Westminster, but where the NI Assembly can legislate with the consent of the Secretary of State.
• health and social services • education • employment and skills • agriculture • social security • pensions and child support • housing • economic development • local government • environmental issues, including planning • transport • culture and sport • the Northern Ireland Civil Service • equal opportunities • justice and policing	• the constitution • Royal succession • international relations • defence and armed forces • nationality, immigration and asylum • elections • national security • nuclear energy • **UK-wide taxation** • currency • conferring of honours • international treaties	• firearms and explosives • financial services and pensions regulation • broadcasting • import and export controls • navigation and civil aviation • international trade and financial markets • telecommunications and postage • the foreshore and seabed • disqualification from Assembly membership • consumer safety • intellectual property

Source: Cabinet Office and Northern Ireland Office - Devolution settlement: Northern Ireland.

Northern Ireland is significantly poorer than the UK as a whole – national income per head is about 25% lower than that of the UK, and even lower when compared to the Republic of Ireland (RoI). In that it is similar to Wales, though it has a population about 40% smaller than that of Wales, with a much smaller economy. Chart 1 highlights Northern Ireland's economic underperformance against the UK as a whole, across a number of key economic metrics. It also provides a sense of Northern Ireland's relative position against the other 11 UK regions. This demonstrates that Northern Ireland is typically amongst the bottom performing UK regions, closely aligned to Wales and the North East of England.

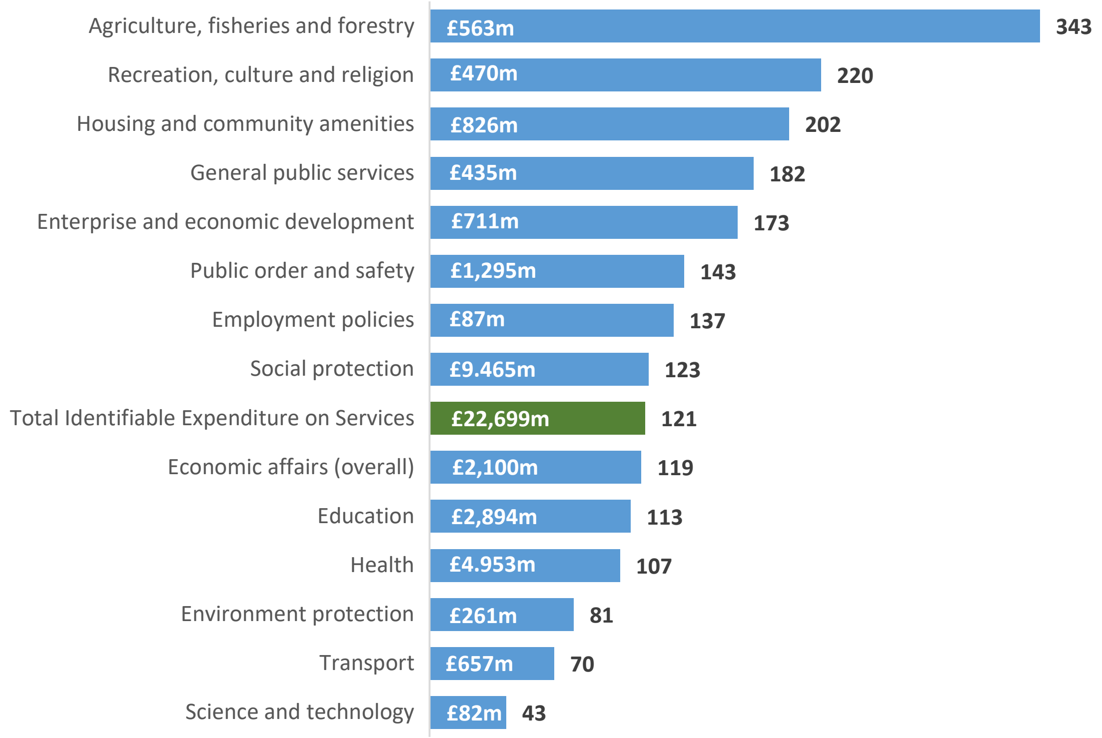
Chart 1 Comparison of selected measures, NI vs UK, 2004 -2020 (UK = 100)



Source: Nomis, ASHE, ONS Subregional Productivity and ONS Regional GDP

Public spending in Northern Ireland is about 20% higher, on a per person basis, than spending in the UK as a whole. Chart 2 shows Northern Ireland public spending figures, focusing on 'identifiable' expenditure, and shows that the biggest spending areas for Northern Ireland include: Social Protection £9.47bn; Health £4.95bn; and Education £2.89bn. Across almost all expenditure areas Northern Ireland spends more per head than the UK average.

Chart 2 Northern Ireland Identifiable expenditure on services by function, £ and per head indexed, UK = 100, 2019-20



Source: NISRA, HM Treasury Country and Regional Analysis 2020
Note: Note these expenditure areas do not necessarily correspond to NI departmental spend.

Meanwhile, because (median) earnings are some 10% lower, combined with lower labour market participation, tax revenues per person are 15% lower. The result is a very large notional fiscal deficit. (Note, as we shall see, that is not in any sense an argument against some additional devolution of tax powers).

Around 90% of NI Executive-led public service spending in Northern Ireland is currently financed by the block grant – the c£14.8 billion a year which is paid directly to the NI Executive by the UK Government. There have in addition been irregular and significant "one off" top ups to this block grant, sometimes resulting from UK Government need for political support (e.g. the 2017 Confidence and Supply Agreement with the DUP) and sometimes payments made to bolster the power sharing arrangements at Stormont (e.g. the 2014 Stormont House Agreement). Table 2 provides a high level summary of the resources from these funding packages and the agreed funding versus the actual funding received by the NI Executive.

Table 2 NI Executive financial packages – agreed versus actual funding profiles 2015-16 to 2024-2025

	2015 16	2016 17	2017 18	2018 19	2019 20	2020 21	Total to 2020 21	2021 22	2022 23	2023 24	2024 25
Agreed	*£80m*	*£122m*	*£122m*	*£577m*	*£607m*	*£641m*	*£2.149bn*	*£254m*	*£149m*	*£104m*	*£104m*
Actual		*£40.9m*	*£44.9m*	*£462m*	*£416.2m*	*£626.2m*	*£1.591bn*				

Source: Department of Finance, Public Spending Directorate.
Note: Figures here includes funding provided as part of the Stormont House Agreement; Fresh Start Agreement; Confidence & Supply Agreement and New Decade New Approach.

As well as spending substantially more per head, **the NI Executive has also decided to forego substantial amounts of revenue by comparison with what it would have received had it matched policy in other parts of the UK**. For example, the fact that water rates are not charged cost the NI Executive £345 million this year alone, ongoing rates support to the manufacturing sector cost £57 million and mitigating welfare reforms £43 million. In total we estimate that the range of areas where the NI Executive charges less or provides more than in other parts of the UK (so called 'super-parity') cost around £600 to £700 million in 2020/21, or some 4% of the Northern Ireland Budget (Table 3).

Table 3 Value of Super-parity measures, Summer 2021, £million

Measure	Value of measure
Existing welfare mitigations	£42.8m
Housing Benefit Rates	£12m
University Tuition Fees*	£14.2m to £90.5m
Industrial De-Rating**	£59m
Low Income Rate Relief**	£6.6m
Vacant property rate relief**	£35m
Freight/transport rate relief**	£2.2m
Landlords Allowance*	£13m
Prescription Charges	£20m
Domiciliary Care Charges	£17.8m to £32.5m
Concessionary Fares	£29.2m
Domestic Water Charges	£344.5m
Air Passenger Duty	£2.3m
Total Super Parity measures	**£599m to £690m**

Source: Commission calculations from Northern Ireland Departmental returns via Department of Finance, Summer 2021

Note: Minor measures under the value of £1m are not included in the table above. Figures provided in Summer 2021 but do not necessarily correspond to figures for that year but the latest available.

** The issue of tuition fee funding and replacing grant funding with increased loans involves many nuances to arrive at exact estimates. The range of estimates presented here reflect whether or not the additional costs associated with the write offs of loans would be met by the UK Treasury or would be met by the NI Executive from its own DEL Budget.*

*** For a number of rating reliefs, revenue foregone is split between the NI Executive and the district councils, therefore not all additional revenue raised by removing these reliefs would go to the NI Executive.*

The NI Executive also has significant capital borrowing powers. These powers are distinct from the borrowing powers that Scotland and Wales obtained for tax devolution purposes. The NI Executive has significant headroom for further borrowing from this source, circa £1.5 billion. This has the potential to be a significant economic lever if used effectively, although, it is also important to recognise that borrowing will have spending implications after the fact.

Why devolution?

Additional devolution of tax powers would, at root, be a political choice, a choice to provide the NI Executive with more power. With responsibility for raising tax as well as making spending decisions the NI Executive would become more accountable to its citizens. The citizens of Northern Ireland, and its Executive, may have different preferences to those of the UK as a whole. They may prefer different degrees of redistribution, for example, or different levels of spending. Under current arrangements they are not able to reflect that through different tax policies.

Tax can also complement policies in other areas where responsibility is devolved. For example, the NI Executive is responsible for public health, but has no control over taxes on alcohol, tobacco or soft drinks. It is responsible for education and skills policy, but not for the apprenticeship levy. Additional fiscal measures might help the NI Executive to incentivise, or disincentivise, certain behaviours to achieve policy goals such as improving public health, boosting skills or protecting the environment.

Sharing an island and a land border with RoI also means that taxes which are set with the UK as a whole in mind may not be appropriate for the Northern Ireland context. That could apply to corporation tax to the extent that Northern Ireland is competing with RoI for investment. It could also apply to excise duties given that the existence of a land border makes cross border shopping particularly easy.

Stakeholders made it clear to us that tax devolution should be seen as a potential tool to strengthen the economy, not just as a way of raising additional revenue for public services. Given that the Northern Ireland economy is different from, and significantly weaker than, that of the UK as a whole, the NI Executive might well be able to use devolved tax powers as one of its tools in implementing an economic strategy aimed at strengthening the economy.

What devolution?

We are not considering full fiscal devolution under which Northern Ireland would be responsible for funding all of its spending from its own revenues. Given the scale of the notional deficit that would clearly not be feasible. Neither Scotland nor Wales has anything approaching that.

We also do not consider pure tax assignment as a desirable way forward. That brings risks without the rewards gained from additional powers. Tax assignment occurs when the devolved government accepts that its revenues from a tax will depend on the amount actually raised there, but without the power to vary rates of the tax. In principle this could create the right incentives to improve economic policy so as to increase incomes and hence revenues. In practice, economic performance, and hence tax receipts, will vary for many reasons outside of the control of the devolved administration.

Rather, we are examining the case for devolving powers over individual taxes.

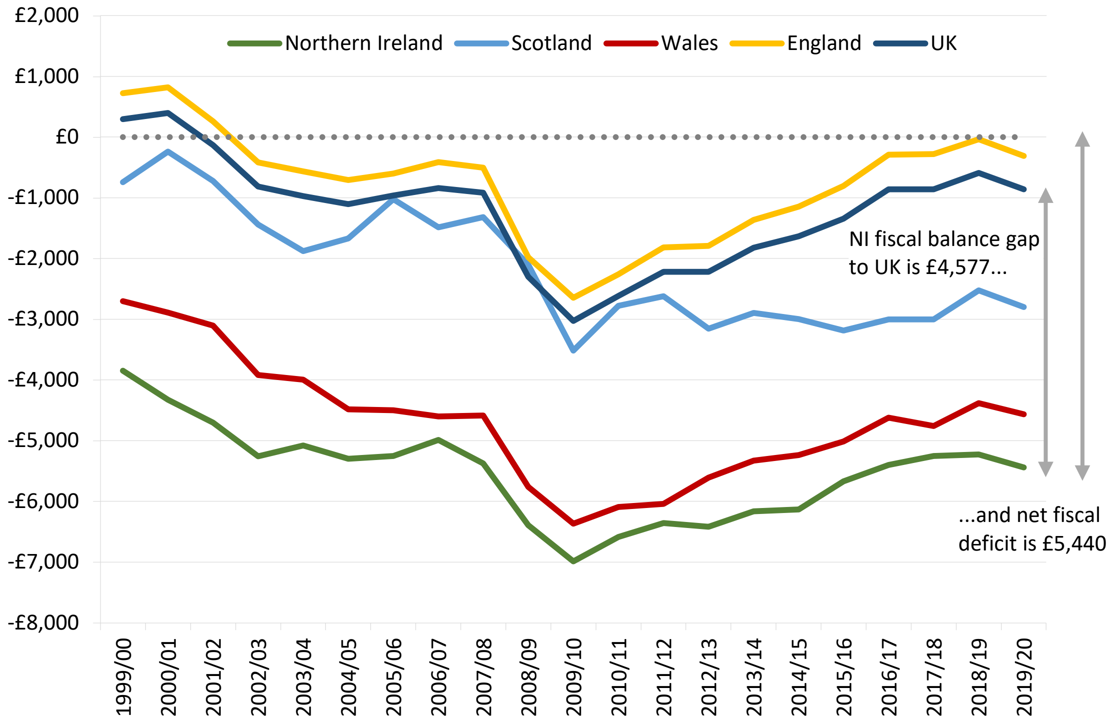
What risks and rewards might devolution bring?

Fiscal devolution does bring the potential for rewards, for example being able to spur economic activity, make different choices, or raise more money. Fiscal devolution could help local citizens, through their politicians, make those choices which suit them best.

However, with additional powers and the potential for additional reward would come additional risk. If taxes are devolved to the NI Executive then the NI Executive's budget will, in part, be determined by how much revenue those taxes raise in Northern Ireland. That could well lead to a more volatile budget. It could even lead to the budget falling, relative to what it might have been in the absence of further devolution and if Northern Ireland tax revenues grow more slowly than expected. Of course, things could pan out the other way, and the budget might increase relative to what it might have been, if Northern Ireland tax revenues grow more quickly than expected. But clearly tax devolution must and will increase risk.

Thinking historically… **the fiscal gap between Northern Ireland and the UK as a whole has been widening**, by 10% (in real terms) over the last 20 years. If substantial fiscal devolution had occurred 20 years ago and the block grant had not been adjusted to reflect that, then this additional fiscal devolution could have been difficult for Northern Ireland, as the gap between the level of spend relative to the level of tax generated locally increased. Chart 3 outlines the changes in the net fiscal position of each UK country over time with Northern Ireland consistently having the largest net fiscal deficit per head since 1999/2000. It also demonstrates that the gap in the fiscal balance between Northern Ireland and the UK as a whole has been widening over time to reach £4,577 per head in 2019/20. Northern Ireland's overall fiscal deficit was £5,440 per head in 2019/20.

Chart 3 Northern Ireland Net Fiscal balances per head, since 1999/00, £, 2019-20 prices



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

Thinking to the future… Northern Ireland's working age population is expected to decline in the years ahead. This will impact on the Northern Ireland tax base, including the potential tax receipts coming from labour-based taxes. Higher proportions of children and those of pension age, relative to the rest of the UK, will also impact on public spending requirements and decisions. Ultimately, the amount of risk borne by the Northern Ireland Budget will depend significantly on how the block grant is adjusted in response to devolution – both the initial cost and how that cost is grown over time.

The exact way in which the block grant would be adjusted in response to tax devolution, and any additional budgetary tools made available to the NI Executive to manage any new powers, will matter enormously. We will come back to that in our final report.

Capacity to take on additional devolution

One important consideration for determining whether taxes should be devolved, and in what order, is the **administrative capability and capacity of the NI Executive and the Northern Ireland Civil Service to absorb and manage additional powers**. Understandably and by design Northern Ireland is not currently positioned to do so – it hasn't needed to be. However, as with Scotland

and Wales this capacity can be developed over time. It is not a reason in itself to not consider devolution. We do note though the report of the Northern Ireland Audit Office (NIAO) which has raised some serious concerns about leadership and delivery capacity within the Northern Ireland Civil Service. The NI Executive would have to ensure that appropriate structures and people were put in place before any devolution of tax powers.

There are two additional issues related to capacity that have been raised numerous times as part of our extensive stakeholder engagement.

One relates to the level of understanding of taxes in the Northern Ireland population. Much concern was expressed that this is currently low. Devolution is more likely to be successful if there is a good level of understanding and engagement from the populace. **We see our report as playing an important role in increasing public understanding of tax in Northern Ireland.**

Virtually everyone we spoke to also raised the issue of the political capacity of the NI Executive. Concerns were expressed over its stability, as well as its capacity to reach coherent and consistent policy decisions. Some saw this as a strong argument against further devolution. Others felt that devolving additional tax powers could help to improve capacity and stability. Enforced power sharing, and the need for cross party agreement, can bring significant benefits, but could also reduce the impact of devolution in terms of enhancing accountability.

It is not for us to make judgments on these essentially political issues, but we would bring to the attention of Northern Ireland's politicians the concerns that we encountered.

Mutual confidence and sustained engagement are also key for the success of fiscal devolution and, in particular, between the UK Government and NI Executive. In previous political agreements the UK Government has committed to examining the potential for devolving further fiscal powers, including, for example, the 2014 Stormont House Agreement. However, and despite these previous commitments, the UK Treasury has expressed scepticism regarding the readiness of the NI Executive to take on additional fiscal responsibility. In a recent letter (September 2021) to the Northern Ireland Finance Minister the UK Chief Secretary to the Treasury has said: "The Executive has not yet been able to demonstrate that its finances are on a sustainable footing for the long term – this is an agreed condition of proceeding with devolving the rate of corporation tax to the Assembly. In my view, before we start looking at the merits of increasing the fiscal powers available to the Assembly, the Executive needs both to devise a strategy for securing its fiscal sustainability and to execute it." Indeed this scepticism has led them to decide not to engage as fully with our Commission as they did with similar Commissions looking at fiscal devolution for Scotland and Wales.

Clearly, any progress on devolution will require the active participation of HM Treasury and the agreement of the UK Government. We have already commented on the number of occasions on which the NI Executive has gone to Westminster asking for additional resources. The NI Executive ought to expect, if it is given substantial additional fiscal powers, that there should be an end to any such requests (except in exceptional circumstances). It is also to be expected that the UK Government would want reassurance on the budgetary sustainability of the NI Executive before devolving any substantial fiscal powers. The UK Government should work with the NI Executive to agree what that means.

Devolving taxes

We have looked in some detail at around 20 different taxes. Starting with the biggest three: **value added tax (VAT) at £3.4bn; National Insurance contributions (NICs) at £3.1bn; and income tax at £3bn**. The three next biggest are **fuel duty (£864m); corporation tax (£810m); and alcohol and tobacco duties (£774m)**. The others, while significant, are much smaller in revenue terms. Table 4 outlines the taxes we have considered along with the revenue raised by each in 2019/20 in Northern Ireland and their share of the total tax take for Northern Ireland (and in the UK).

Table 4 Tax revenues raised in Northern Ireland, 2019-20

UK wide taxes	Tax take 2019/20 £million	% share of total NI tax take	UK equivalent % share of total UK tax take
Value added tax	3,442	22.0%	18.1%
National Insurance contributions	3,094	19.7%	19.6%
Income tax	3,001	19.2%	26.2%
Fuel duty	864	5.5%	3.7%
VAT refunds*	798	5.1%	2.6%
Corporation tax	810	5.2%	6.6%
Alcohol and tobacco excise duties	774	4.9%	2.9%
Vehicle excise duty	219	1.4%	0.9%
Insurance premium tax	144	0.9%	0.9%
Capital gains tax	105	0.7%	1.3%
Stamp duty	80	0.5%	2.2%
Air passenger duty	80	0.5%	0.5%
Betting and gaming duties	75	0.5%	0.3%
Inheritance tax**	43	0.3%	0.7%
Bank levy	36	0.2%	0.3%
Landfill tax	24	0.2%	0.1%
Climate change levy	23	0.1%	0.3%
Aggregates levy	18	0.1%	0.0%
Soft drinks industry levy	12	0.1%	0.0%
Digital Services tax	2	0.0%	0.0%
Other taxes	569	3.6%	3.5%
Non-Domestic and Domestic rates (or Council Tax in GB)	1,455	9.3%	9.1%
Total taxes only	**15,668**	100%	100%
*Other revenue****	*4,149*		
Total revenue	*19,817*		

Source: ONS Country and Regional Public Sector Finances, FYE 2020: Revenue Tables, geographical basis
** VAT refunds represent the refunds of VAT that some public sector bodies have paid in respect of contracted out services for non-business purposes and are therefore a revenue foregone as opposed to a revenue raised. However, they are noted here for completeness. **ONS includes inheritance tax as part of 'other taxes on capital' along with Swiss Capital Tax. As no values for Swiss Capital tax are applicable in 2019/20, the value of 'other taxes on capital' for that year is solely attributed to inheritance tax.*** 'Other revenue' is made up of Gross Operating Surplus; interest and dividends; and rent & other current transfers. The main component of the 'Other revenue' value is Gross Operating Surplus – which totals £3,250m in Northern Ireland in 2019-20. A detailed explainer is provided in Box 2.3 of the full report.*

We have had to prioritise a relatively small number of taxes for further investigation between this interim report and our final report, given the time and resources available to us. It is also our view that if Northern Ireland were to take on additional powers it should, like Scotland and Wales, take them on gradually so as to ensure administrative systems and the block grant adjustments essential to fiscal stability and sustainability are properly in place and functioning. So, we have prioritised. That said, in our view in the long term there is no reason in principle why a substantial fraction of current taxes could not be devolved. However, the decision on the balance of tax devolution would ultimately be a choice for politicians both local and national.

Much fuller explanations of why we arrived at the conclusions set out here are available in the main report. Here we provide just the briefest of summaries.

The big three

Income tax (£3bn), NICs (£3.1bn) and VAT (£3.4bn) account for close to two thirds of the Northern Ireland tax take. If the NI Executive is to have the capacity to raise serious amounts of revenue, or effect significant redistribution through the tax system, then it is likely to need some powers over one of these taxes.

There are good reasons to believe that (elements of) income tax would be the most appropriate of the big three to devolve. There is already experience of that in Scotland and Wales, so we know it is administratively possible. It is probably the most salient, or easily understood, of all the taxes. And it is the tax most suited to achieving redistribution.

We note that previous commissions for Scotland and Wales ruled out the devolution of VAT and NICs, because of EU rules in the former case and the relationship between NICs and benefit entitlements in the latter. These constraints may be less binding today and in the Northern Ireland context. Having exited the EU, we believe VAT devolution would be legally permissible. And Northern Ireland, despite broad parity with rUK, also formally operates its own benefit system, with contributory benefits also notionally funded by a separate Northern Ireland National Insurance Fund. Nevertheless, devolving each would be more complex than devolving income tax, not least in the case of VAT due to the remarkable lack of information on how much is collected at sub-national levels (a problem which has delayed assignment of VAT revenues to Scotland for over two years to date).

We therefore propose to focus on options for income tax devolution in our final report.

As an addendum, a relatively small tax that the NI Executive does not control is the **apprenticeship levy**. The arguments for devolving this are good, because it relates to the NI Executive's responsibility for economic growth and skills. But if devolved in isolation, this would involve excessive administration costs. We therefore wish to consider its devolution only in conjunction with the possible devolution of income tax (or NICs) which would help with administrative issues.

Corporation tax

Devolution of **corporation tax (£810m)** is already legislated for in the UK Parliament, but not 'commenced'. For a number of years there was a cross-party consensus in favour of devolution reflecting concerns about the difficulty of competing with RoI which has long had a 12.5% rate. Devolution did not actually occur. Firstly, because the NI Executive collapsed. But also the NI Executive had still to get the UK Government's agreement that its finances were 'sustainable' – a condition to commence the power. Additionally, it had not proved possible, at that point, to reach agreement with Westminster over how the block grant should be adjusted.

We have heard different views about the case for devolution. There is economic modelling which suggests a lower corporation tax rate in Northern Ireland could be highly economically beneficial, and that it could impact foreign direct investment (FDI) decisions. The case for devolution may have been strengthened by the recent announcement that the UK corporation tax rate will rise to 25%. Even in the face of an increase in the RoI rate to 15%, that leaves a big difference between Northern Ireland and RoI.

On the other hand, the international environment has changed in recent years and continues to evolve. Competition on the basis of corporation tax rates has become less acceptable. We have heard economic evidence that other considerations, especially the skills and education of the population, are now much more important both for the actual success of the RoI economy and for the potential success of Northern Ireland's economy.

The case for corporation tax devolution is all about the opportunity to improve economic performance. In that respect it is rather different than the other taxes we have considered. We consider that there is a case for lower rates of corporation tax in poorer regions of the UK in general and, given the proximity of RoI, Northern Ireland in particular.

Devolution would, though, be complex. There are technical complexities around companies dealing with more than one rate within the UK, and HMRC ensuring the existence of different rates is not used as an opportunity for tax avoidance. There are also political complexities. The only reason for Northern Ireland to seek devolution of corporation tax would be to give the NI Executive the opportunity to implement a significant cut in its rates. That would result in an immediate loss of tax revenue in the expectation, though not the certainty, that future economic growth would be enhanced. So, a cut would need to be accompanied by one or more of tax rises elsewhere, spending cuts, borrowing, or additional support from the Westminster government. There would also need to be agreement with Westminster over whether and how the block grant should be adjusted not just in response to direct revenue losses resulting from devolving the tax but also from behavioural change; if profits move from Great Britain (GB) to Northern Ireland the UK Government may want compensating. A significant cut in Northern Ireland corporation tax could also lead to wider tax receipt benefits for the UK Exchequer. Even after initial agreement in principle on how these issues should be dealt with, robust processes would be needed to estimate effects, agree adjustments and arbitrate in the case of disagreement.

So, while in the Commission's view there is a case for devolving corporation tax, there is no value in the NI Executive simply asking for it again. It will need to demonstrate how it would use the powers, and how it would balance its budget: it would need to demonstrate the "sustainability" of its finances. It would need to work together with the UK Government on these issues. In our view the pre-requisites for devolution include:

- A clear statement of intent from the NI Executive on how devolved powers would be used;
- Agreement with HM Treasury over how the block grant would be adjusted in response to the mechanical effect of a cut in tax rate on revenue;
- A clear method for agreeing how, if at all, other effects on revenues would be taken into account, and a method for resolving disputes with HM Treasury;
- An agreement with HM Treasury over some limited additional borrowing powers to cover part of the short-term hole created by a tax cut;
- A clear commitment from the NI Executive over how it would fill the rest of the short-term hole in its revenues created by a tax cut and repay its additional borrowing.

As a Commission we believe that there is value in the NI Executive seeking devolution of corporation tax. Equally we see no value in them doing so unilaterally. We also recognise that this approach is different to our approach to other taxes and different to the approach taken in Scotland and Wales in respect of the taxes devolved there. However, corporation tax is different and the issues that need resolution are more complex. Should the NI Executive wish to pursue devolution we would urge them to develop their own plans for sustainability and we would urge HM Treasury to engage constructively on the block grant adjustment and borrowing powers.

Given the work already done, the scale and complexity of the issues, the need for action from the NI Executive and constructive engagement from HM Treasury, we as a Commission will not consider corporation tax any further.

Excise duties

Excise duties on petrol (£864m), alcohol and tobacco (£774M) raise around £1.6 billion in Northern Ireland each year. The Calman and Holtham Commissions, which examined tax devolution in Scotland and Wales respectively, ruled out consideration of their devolution. That reflected worries about the potential for cross border shopping: their land borders with England would have meant any differential in duty levels leading to residents crossing the border to purchase excisable goods in order to take advantage of tax differentials. Additionally, with respect to fuel duties, EU rules necessitated a single rate for each fuel type in Member States.

The situation in Northern Ireland is different, indeed arguably reversed. There is no land border with England, but there is with RoI. There is a case for allowing the NI Executive to set excise duties which are different from those in in the UK as a whole so as to be able to account for policy in RoI. For administrative reasons the existence of the NI Protocol could also make devolution easier than had it not existed (though it may also make the 'scope' of devolution more restrictive). In addition, taxation of alcohol and tobacco could support the NI Executive's wider public health agenda.

For these reasons we will be looking further at the possibility of devolving excise duties. The big possible barrier relates to administration, compliance and enforcement as these goods move between Northern Ireland and GB. This is due to their structure as a tax, levied at the production and import stage rather than by retailers at the point of sale to final consumers. We will investigate these issues further for our final report.

Stamp duty land tax (SDLT)

While it only raises **£80 million** per annum, as a tax on property SDLT is well suited to devolution. It has been successfully devolved to Scotland and Wales, and significantly reformed by the Scottish Government. Given the lower values of properties in Northern Ireland relative to GB there could be a case for having different rates of SDLT in Northern Ireland. **We will be giving further consideration to devolution of SDLT in our final report.**

Other taxes on capital

While there might in principle be a case for devolving **inheritance tax (£43m)**, not least because of the very different levels of wealth in Northern Ireland, a combination of administrative complexity and the very small amounts of money involved means we will not be pursuing it further. We also see little case for prioritising **capital gains tax (£105m)**. **Stamp duty on shares** would be complex to devolve and achieve little. **We see no case for further analysis of these taxes.**

Environmental levies

Landfill tax (£24m) is a good candidate for devolution and we will look further at it. **Decisions on the aggregates levy (£18m) should be reserved until there is more evidence** on the experience of implementing a devolved aggregates levy in Scotland. **The climate change levy (CCL) (£23m) is best left as a UK wide tax**: carbon taxes should be set at the highest possible level of government with the widest possible application.

Other indirect taxes

Air passenger duty (APD) (£80m) is a good candidate for devolution, though there is likely a trade-off in the consideration of APD between environmental and economic factors, these issues should be considered ahead of pursuing this tax for devolution. We have also considered **betting and gaming duties (£75m), insurance premium tax (£144m), the soft drinks levy (£12m), and vehicle excise duty (VED) (£219m). Administrative costs and problems of implementation, set against relatively low revenue yield mean we don't believe the first three are priorities or strong candidates for devolution**. In the case of VED the fact that registered keepers of vehicles could be in GB as opposed to Northern Ireland, and difficulties with fleets would add to complexity and costs. **We therefore don't consider VED a priority for devolution**.

Table 5, overleaf, sets out our concise summaries of conclusions for each tax. As a reminder, much fuller explanations of why we have arrived at the conclusions set out here can be found in Chapter 4 of our full report.

Table 5 Summary of the Commission's conclusions on the suitability of each of the UK taxes levied in Northern Ireland

Taxes that <u>will</u> advance for further consideration	
Income tax	Income tax is a sufficiently strong candidate for devolution in Northern Ireland and we will consider it further as part of the second phase of our work. A key issue for consideration will be the scope of devolution, that is, if devolution was agreed which elements of the tax base should be devolved and what degree of control over rates and bands should be devolved.
Fuel duty	We consider the case for devolution of fuel duty to Northern Ireland is sufficiently strong to merit further investigation as part of the second phase of our work. We will carry out additional research, and take forward analysis of the likely additional administration and compliance issues as far as is possible within the period before the publication of our final report.
Alcohol and tobacco duties	We consider the case for devolution of alcohol and tobacco duties to Northern Ireland to be sufficiently strong to merit further consideration as part of the second phase of our work. We will carry out additional research, and take forward analysis of the likely additional administration and compliance issues as far as is possible within the period before the publication of our final report.
Stamp duty land tax	Stamp duty land tax is a sufficiently strong candidate for devolution in Northern Ireland and we will consider it further as part of the second phase of our work. A key issue for investigation will be to consider how administration costs could be minimised.
Air passenger duty	Air passenger duty is a sufficiently strong candidate for devolution in Northern Ireland and we will consider it further as part of the second phase of our work. The Commission would stress, however, that there is likely a trade-off in the consideration of APD between environmental and economic factors, these issues should be considered ahead of pursuing this tax for devolution.
Apprenticeship levy	We consider the case for devolution of the apprenticeship levy to Northern Ireland to be sufficiently strong to merit further investigation. However, in terms of sequencing, we consider that the case for devolution would be best made following any decision to devolve income tax and/or NICs, given the likely administration costs of pursuing this tax in isolation. Given our position on income tax, we will consider the apprenticeship levy further as part of the second phase of our work.
Landfill tax	Landfill tax is a sufficiently strong candidate for devolution in Northern Ireland and we will consider it further as part of the second phase of our work.
Taxes that <u>will not</u> advance for further consideration	
VAT	There is a case, in principle, for devolution of VAT to Northern Ireland. However, the uncertainty regarding the significant additional compliance and administration burdens relative to income tax are sufficient that, in our view, further work at this stage should prioritise consideration of options for devolving income tax, rather than VAT. At this stage, therefore, we will not be carrying this tax forward for consideration as part of the second phase of our work.
NICs	There is arguably a slightly stronger case for devolving NICs to Northern Ireland than for Scotland or Wales. However, there remain additional complications relative to income tax, sufficient that, in our view, further work at this stage should prioritise consideration of options for devolving income tax, rather than NICs. If the NI Assembly wished to prioritise NICs over income tax or subsequent to any decisions to successfully devolve some or all income tax revenues to Northern Ireland, there may be a case to reconsider the devolution of NICs. At this stage, however, we will not be carrying this tax forward for consideration as part of the second phase of our work
Corporation tax	It is the Commission's view there is a case for devolving corporation tax to Northern Ireland. However, it is also our view that, given the complexities, both technical and political, there is no value in the NI Executive simply asking for it again. It will need to demonstrate how it would use the powers, and how it would balance its budget. It would need to demonstrate the "sustainability" of its finances. It would need to work together with the UK Government on these issues.

	It is our view that there are a number of pre-requisites for successful devolution, which include: • A clear statement of intent from the NI Executive on how devolved powers would be used; • Agreement with HM Treasury over how the block grant would be adjusted in response to the mechanical effect of a cut in tax rate on revenue; • A clear method for agreeing how, if at all, other effects on revenues would be taken into account, and a method for resolving disputes with HM Treasury; • An agreement with HM Treasury over some limited additional borrowing powers to cover part of the short-term hole created by a tax cut; • A clear commitment from the NI Executive over how it would fill the rest of the short-term hole in its revenues created by a tax cut and repay its additional borrowing. As a Commission we believe that there is value in the NI Executive seeking devolution of corporation tax. Equally we see no value in them doing so unilaterally. We also recognise that our approach to corporation tax is different to our approach to other taxes and different to the approach taken in Scotland and Wales in respect of the taxes devolved there. However, corporation tax is different and the issues that need resolution are more complex. Should the NI Executive wish to pursue devolution we would urge them to develop their own plans for sustainability and we would urge HM Treasury to engage constructively on the block grant adjustment and borrowing powers. Given the work already done, the scale and complexity of the issues, the need for action from the NI Executive and constructive engagement from HM Treasury, we as a Commission will not consider corporation tax any further.
Vehicle excise duty	There is a case, in principle, for the devolution of vehicle excise duty to Northern Ireland. However, due to the potential for significant distortions to tax bases, under existing administrative arrangements, where the 'registered keeper' of a vehicle is liable, we do not consider the devolution of this duty to be a priority for Northern Ireland at this time, and do not intend to carry this levy forward for consideration as part of the second phase of our work.
Insurance premium tax	The insurance premium tax is not a strong candidate for devolution in Northern Ireland. Therefore, we will not be carrying this tax forward for consideration as part of the second phase of our work.
Capital gains tax	There is a case, in principle, for the devolution of capital gains tax on disposals of land and property assets in Northern Ireland. There is much less of a case for the devolution of non-land and property assets. In view of the low revenues involved, with regard to land and property assets, we do not consider this tax to be a priority for devolution and, therefore, will not be carrying it forward for consideration as part of the second phase of our work.
Betting and gaming duties	There is a case, in principle, for devolution of betting and gaming duties to Northern Ireland. However, we consider that the challenges of geographic apportionment of customers and taxable yield make these duties administratively difficult and do not consider them to be a priority for devolution and, therefore, will not be carrying these duties forward for consideration as part of the second phase of our work.
Inheritance tax	There is a case, in principle, for devolution of inheritance tax to Northern Ireland, given Northern Ireland constitutes a part of the UK with different wealth distribution. However, we consider the potential issues around avoidance and the relative size of the cost to administer the tax compared to its size, impact on the feasibility of devolution. Therefore, we do not consider this tax to be a priority for devolution and will not be carrying it forward for consideration as part of the second phase of our work.

Climate change levy	There is arguably a case, in principle, for devolution of the climate change levy to Northern Ireland, given the local policy context. However, given climate change is a global issue, typically best tackled by policies that operate over larger rather smaller geographical areas, we do not consider this tax to be a priority for devolution and will not be carrying it forward for consideration as part of the second phase of our work.
Aggregates levy	There is a case, in principle, for devolution of the aggregates levy to Northern Ireland. However, it remains unclear to what extent the administrative costs associated with a devolved levy would justify the potential benefits. We recommend that the NI Executive follows the progress being made in the implementation of a devolved aggregates levy in Scotland and makes a decision on whether to pursue the tax further at that point. At this stage, therefore, we will not be carrying this levy forward for consideration as part of the second phase of our work.
Stamp duty on shares	Stamp duty on shares is not a strong candidate for devolution in Northern Ireland. It is paid only by a relatively small proportion of the population, and there is no obvious link between the tax and the devolved competencies of the NI Assembly. Identifying the geographic status of share purchasers is also likely to be problematic. Therefore, we will not be carrying this duty forward for consideration as part of the second phase of our work.
Soft drinks levy	The soft drinks levy is not a strong candidate for devolution in Northern Ireland. The levy raises very little revenue and therefore increases in administration and compliance costs could be large relative to revenue yield and devolution would do little to improve the financial accountability of the NI Assembly. Therefore, we will not be carrying this levy forward for consideration as part of the second phase of our work.
Taxes on specific business activities (*Diverted profits, Banking levy, Digital services*)	As these are small and highly complex taxes that relate to HMRC's efforts to tackle international tax avoidance (the diverted profits tax and digital services tax) or a non-devolved responsibility (financial services regulation and insurance), we do not consider them strong candidates for devolution. Therefore, we will not be carrying these taxes forward for consideration as part of the second phase of our work.

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