



# More fiscal devolution for Northern Ireland?

Paul Johnson, Chair  
and  
Cathy Gormley-Heenan

13 December 2021

- **Overview of the Commission and report structure**
- **The Northern Ireland context: economy, tax and spending**
- **Wider devolution considerations**
- **Tax assessment: model, criteria and appraisal**

# Overview of the Commission and report structure

## Terms of Reference

***“Review the case for increasing the fiscal powers to the NI Assembly, advising the Finance Minister on powers which could enhance the Assembly’s fiscal responsibilities ...”***

## Established

- By NI Finance Minister, Conor Murphy MLA, March 2021, Ministerial Statement
- Report to Finance Minister ahead of new political mandate (elections, May 2022)

## Commissioners

- **Paul Johnson**, Chair, Director, Institute for Fiscal Studies
- **Prof. Cathy Gormley-Heenan**, former deputy V/Chancellor Ulster University;
- **Prof Iain McLean**, Emeritus Professor of Politics at Oxford University; and
- **Dr. Lisa Wilson**, Senior Economist at the Nevin Economic Research Institute.

# Our interim report...



**Reporting in two stages**

**Outline of context and factors for successful fiscal devolution**

**Assessment of individual taxes in the Northern Ireland context**

**Shortlist of taxes for further consideration in our final report**

## ...to final report

Will revise and add to our interim report, rather than start afresh

Analysis of the operational aspects of implementation

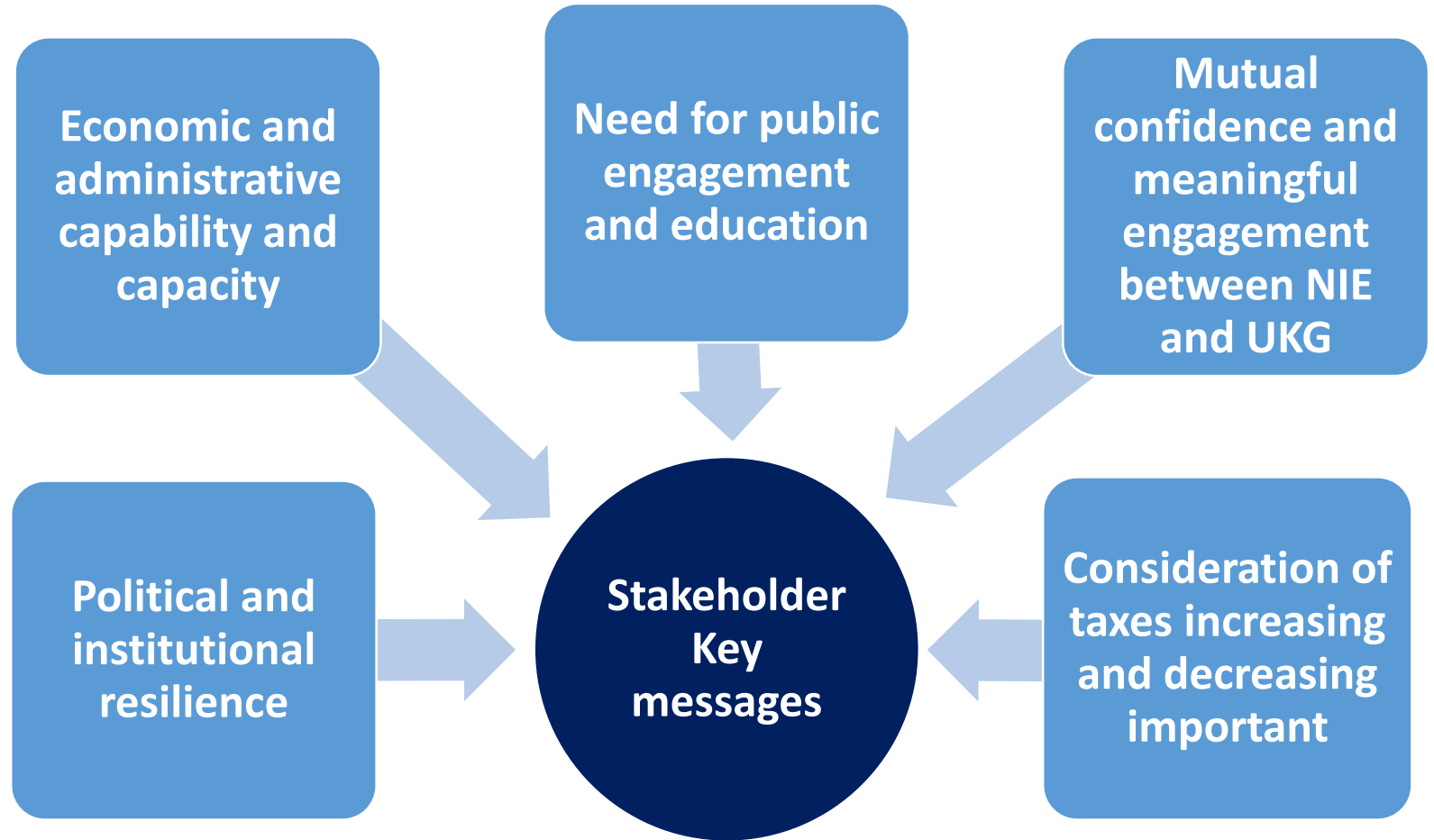
Ongoing stakeholder engagement

Commission will put forward our conclusions for fiscal devolution



# Valuable input from stakeholder engagement to date

- Met with over **50** organisations / stakeholders to date
- Academia; Economists; Business Organizations; 3rd Sector bodies; government; and Trade Unions
- Met with representatives from **all main local political parties**
- Presentations at the **British and Irish Conference** and the **NERI 2021 Donal Nevin Lecture**



# Four new key questions for stakeholders...

1. Do you agree with our understanding and representation of why fiscal devolution might be considered important and the contemporary context of Northern Ireland, as described in Chapter 1?
2. Do you agree with our understanding and our representation of the current Northern Ireland context?
3. Do you agree with our analysis of the suitability or otherwise for devolution of the individual taxes listed in Chapter 4?
4. Do you agree with our conclusions regarding the prioritisation of specific taxes to be carried forward for further consideration in the second phase of our work? (*Views on Excise Duties to Northern Ireland?*)

Responses to Interim report strongly encouraged, by **1 Feb 2022**- to: [fiscalcommissionni.org](https://fiscalcommissionni.org)

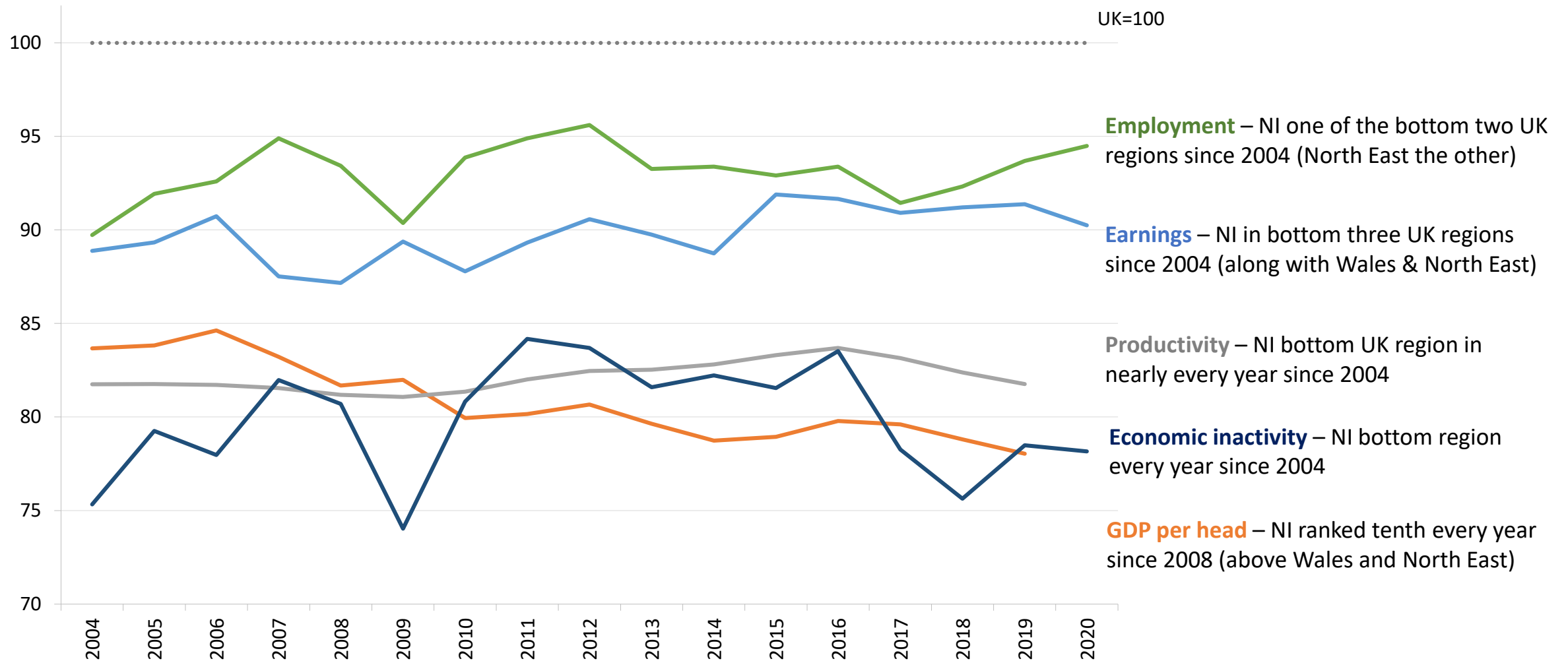




# **The Northern Ireland context: economy, tax and spending**

# NI underperforms UK average, aligned with Wales and North-East...

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



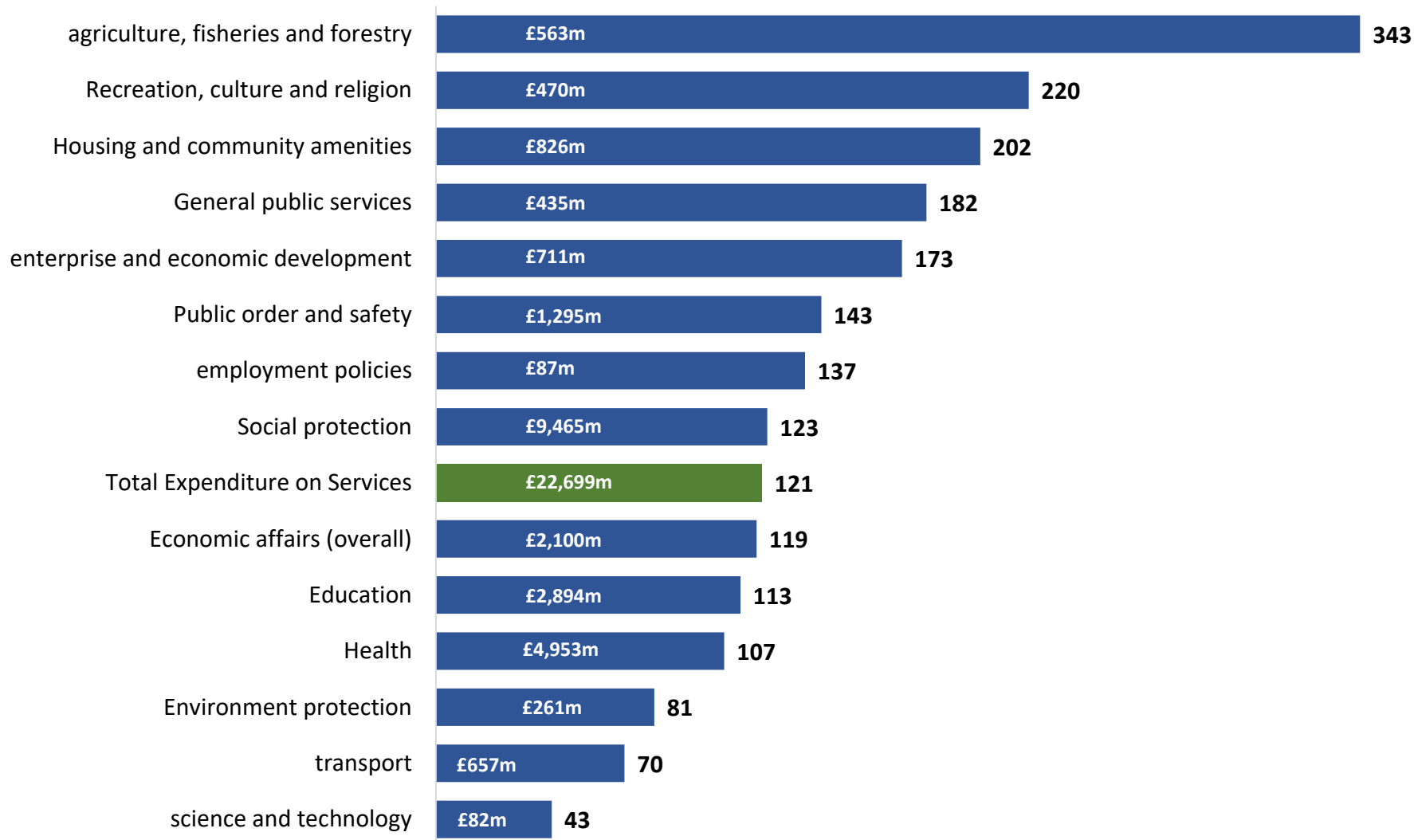
Sources: Nomis, ASHE, ONS Subregional Productivity and ONS Regional GDP

# NI has substantial powers over spending, but not over tax..

- **NI Executive controls majority of ‘identifiable’ public spending** on services in NI – almost £9 in every £10 spent (including Social Security)
- **Social Security devolved in legislation**, but spending linked, so powers **limited in practice**
- **Nearly 90% of Executive DEL Budget** (excludes Social Security) **comes from Block Grant.**
- **Main NI Executive tax resource comes from Rates** (domestic and business) - less than £1 in every £20 of tax revenue is raised by the NI Executive.

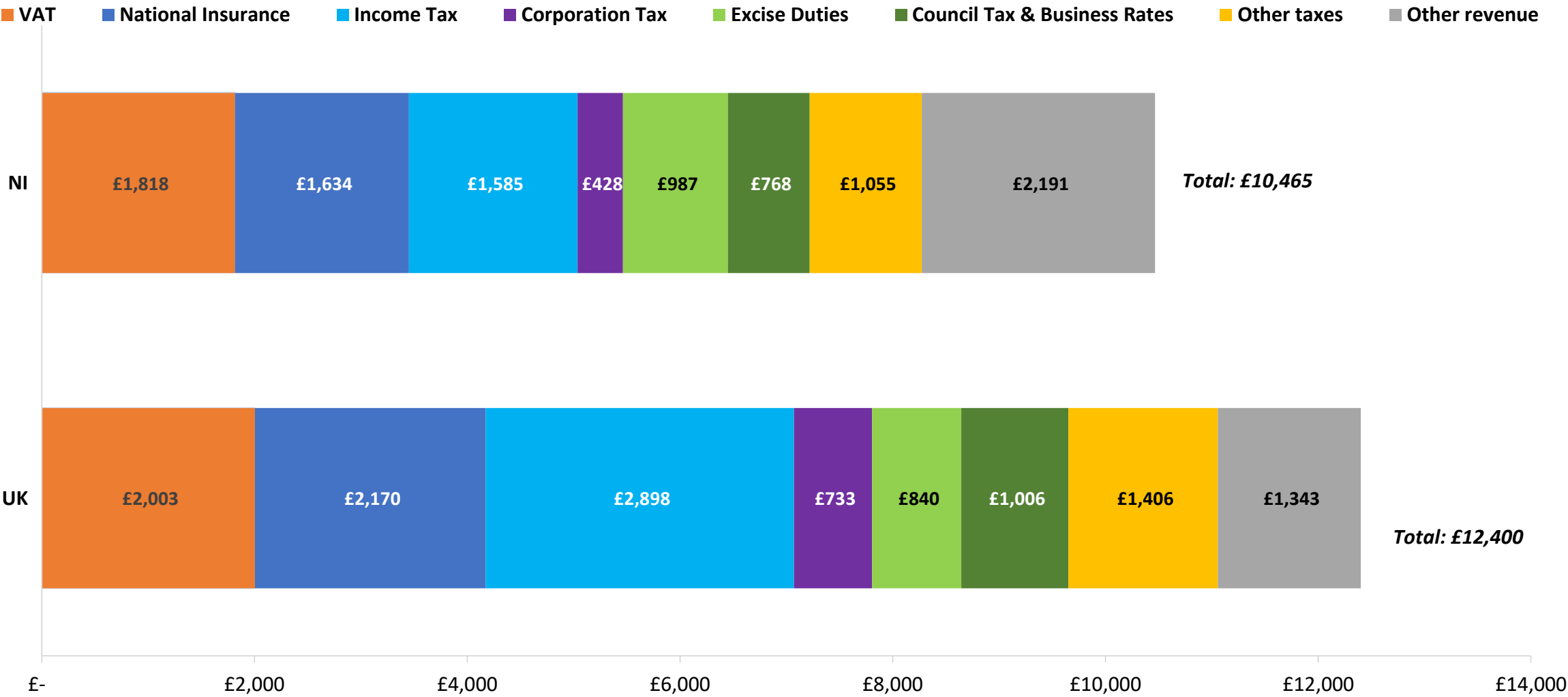
# And much higher levels of spend than rUK...

## NI Identifiable expenditure on services by function, £ and per head indexed, UK = 100



# And much lower levels of tax generation...

NI vs UK, composition of revenue per head (£), 2019/20, geographic basis



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

# Leading to a much bigger fiscal deficit per person...

## Net Fiscal Deficit per head UK regions 2019/20, geographical basis



# And some significantly more generous taxes and charges

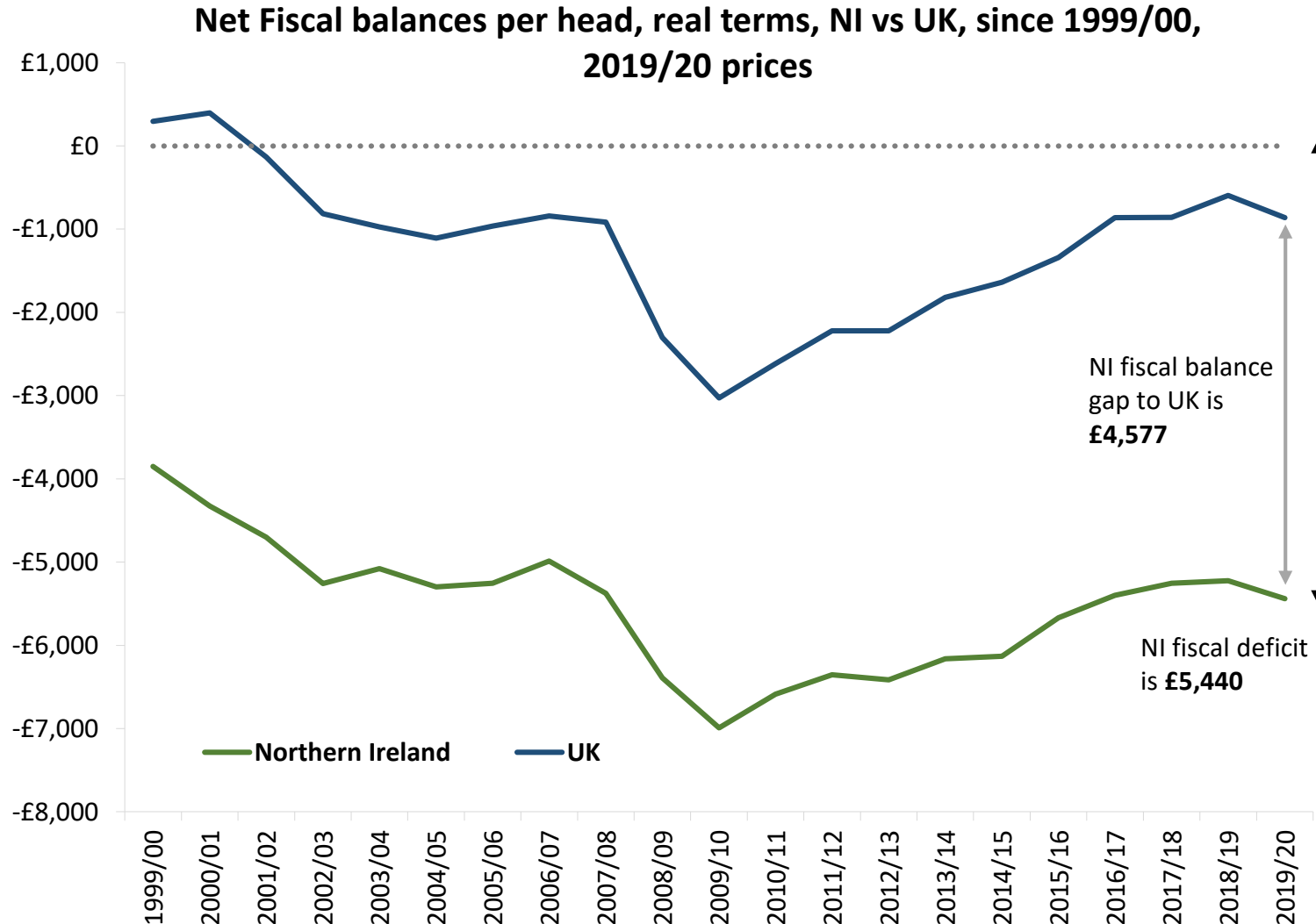
- Complex issues with each of these. However, there are a number of specific examples of **policy divergence** where NI could raise additional revenue or reduce expenditure if policies matched other parts of the UK.
- Examples include:
  - **Domestic Water Charges**
  - **Welfare Mitigations**
  - **Rate reliefs (domestic and non-domestic)**
  - **University Fees**
  - **Prescription Charges**
  - **Housing Benefit Top Up**
  - **Concessionary Travel**
  - **Domiciliary Care Charges**
- Total impact in NI **between £600m and £700m** per annum (2021 estimates)
- **A UK equivalent would be over £21 billion per annum**



# Wider devolution considerations



# Potential for additional reward comes with additional risk



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

- **Potential rewards** - improved ability to spur economic activity, make different choices more suited to NI, or raise additional revenue
- **Fiscal gap** between NI and UK has been widening, by 10% (in real terms) over last 20 years
- If fiscal devolution had occurred previously **could have been difficult for NI (BGA depending)**
- **Example of long-haul APD in NI** – NI Executive paying c£2m per annum but no flights
- **Examples of risk and reward** - Scottish income tax and long-haul APD in NI

# Importance of Block Grant Adjustments

- **Tax devolution implies a deduction to the block grant to reflect revenues foregone by UKG. Two parts:**
  - Initial deduction (revenues raised from devolved tax in NI in year prior to devolution)
  - Indexation: a measure of the growth in revenues of 'comparable tax' in rUK
- **There are different ways that such a deduction can be estimated**
  - Different approaches influence the risks and rewards that the NI budget is exposed to
  - Also the extent to which tax devolution is perceived as fair by taxpayers in NI and rUK.
- **These issues can be quite contentious** - as seen previously in Scotland
- **Example provided in Interim Report. Final Report will provide much more detail.**

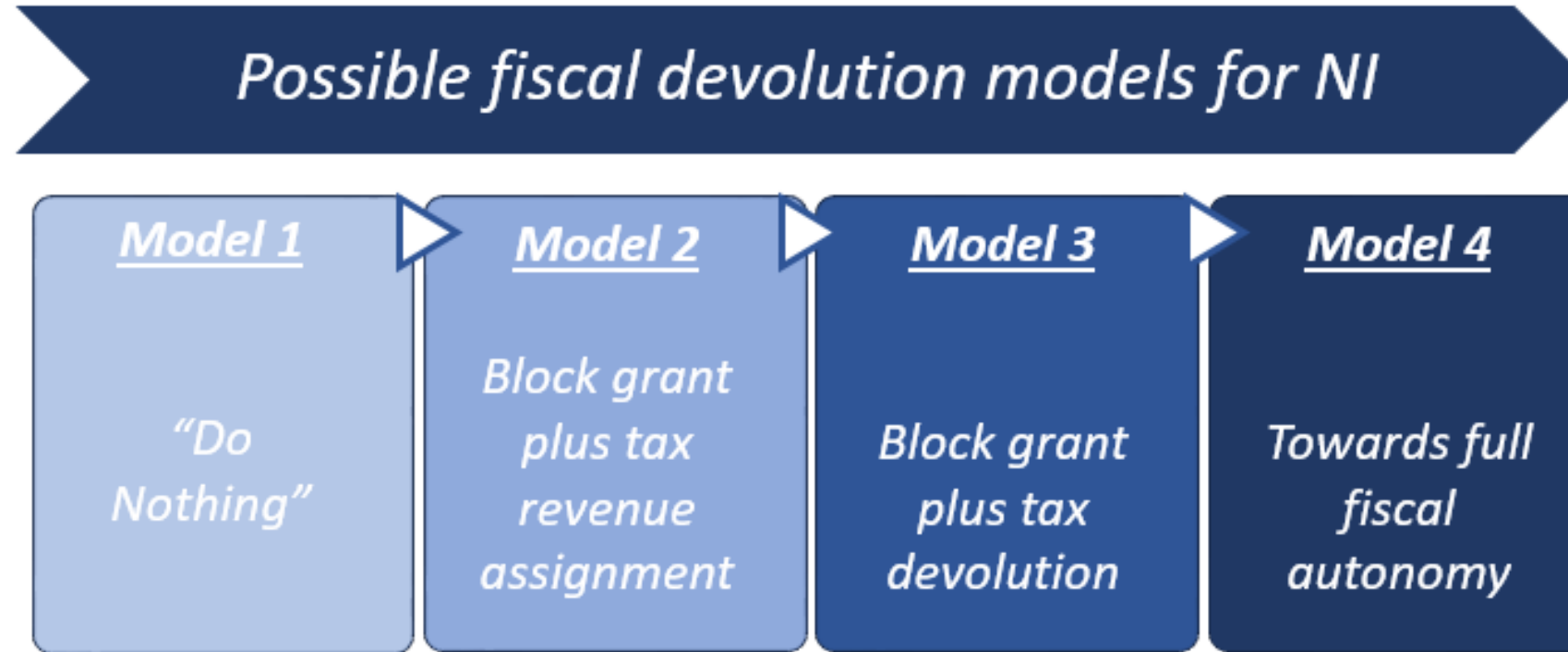
- **Significant issues over tax data reliability at a regional level across the UK**
  - Quality over estimates vary by tax
  - Mix of administrative data and survey data
  - **Example** – VAT estimates – NI's largest tax - £4.2 billion (with refunds). Based on Living Costs and Food survey but sample size in NI of circa 150 households!!
  - Scottish issues with data reliability on VAT and Income Tax – lessons for NI
  - Improving data now key to help devolution in future

- **Two commissions in each case (One Technical / One Political)**
- **Scotland has had some tax varying powers since devolution in 1999 and now has powers over:**
  - Scottish Income Tax (partially devolved) rates and bands (non-savings and non-dividend)
  - Scottish Land and Buildings Transaction Tax
  - Scottish Landfill Tax
  - Council Tax and Non-Domestic Rates
- **Wales has powers over:**
  - Land Transaction Tax
  - Landfills Disposals Tax
  - Income Tax – Partial
  - Council Tax & Non-Domestic Rates

- **Tax Powers utilized** – differentiate from UKG policies (Income Tax; Land Transaction Tax)
- **Caution needed over estimates of tax revenues** – Scottish Income Tax; VAT revenues
- **Devolution not always straight forward** – VAT assignment; APD; Aggregates Levy
- **Budget Impacts** – increased importance on UK Budget timing; increased budget volatility
- **New revenue authorities** - established and collecting devolved taxes

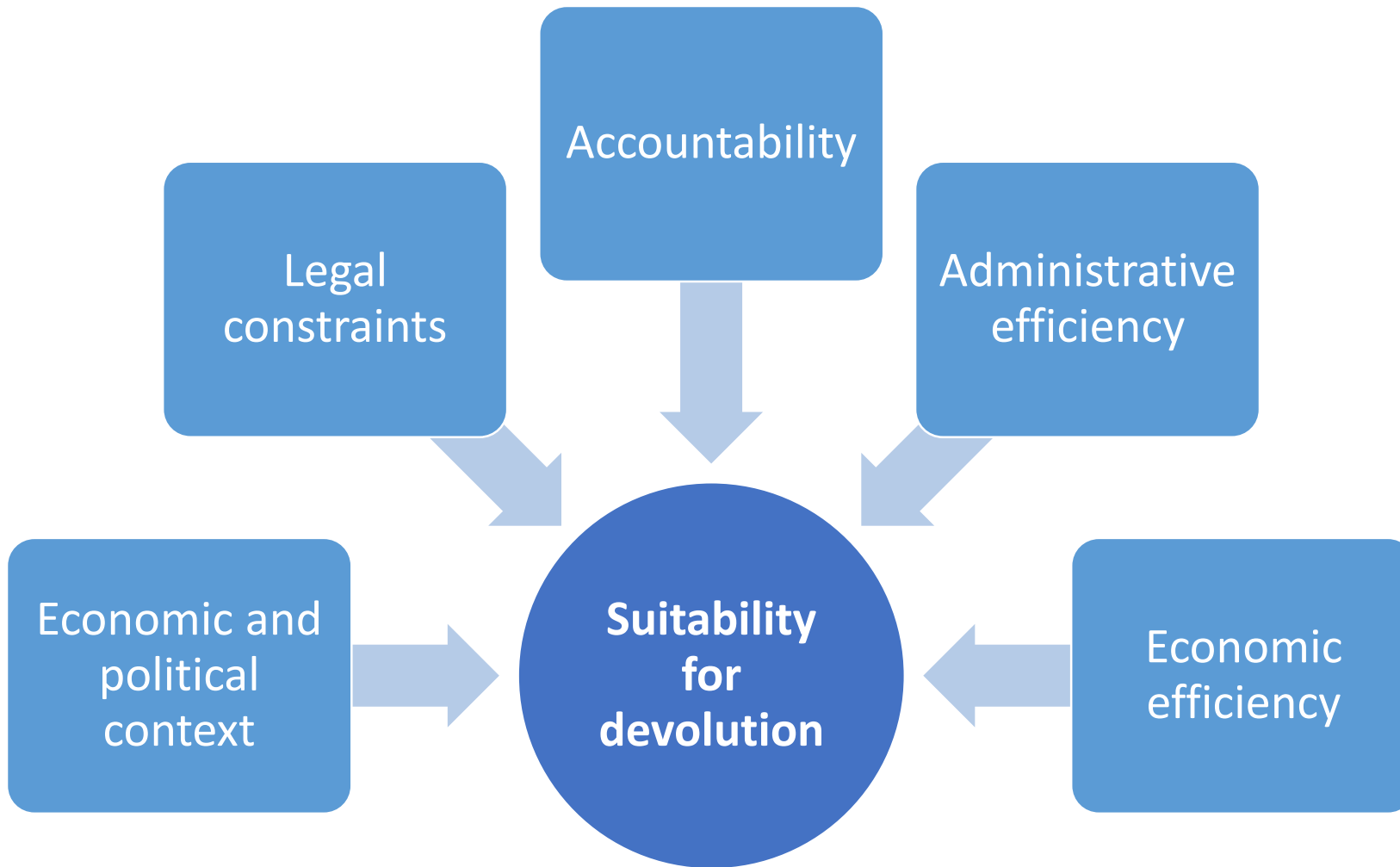


# **Tax assessment: model, criteria and appraisal**



- We are not considering full fiscal devolution
- Pure tax assignment also not a desirable way forward.
- Rather, we are examining the case for devolving powers over individual taxes.

# Commission's criteria for assessing taxes



- Some taxes better **suited to supporting devolved responsibilities** – e.g. alcohol/tobacco duties and link to public health (devolved).
- Other taxes less of a link to devolved responsibilities but **important in terms of revenue**, e.g. Income Tax; VAT; NICS.
- Vital to consider **concentration of powers and appropriate sequencing / design** of devolution.



# Key points ahead of further fiscal devolution

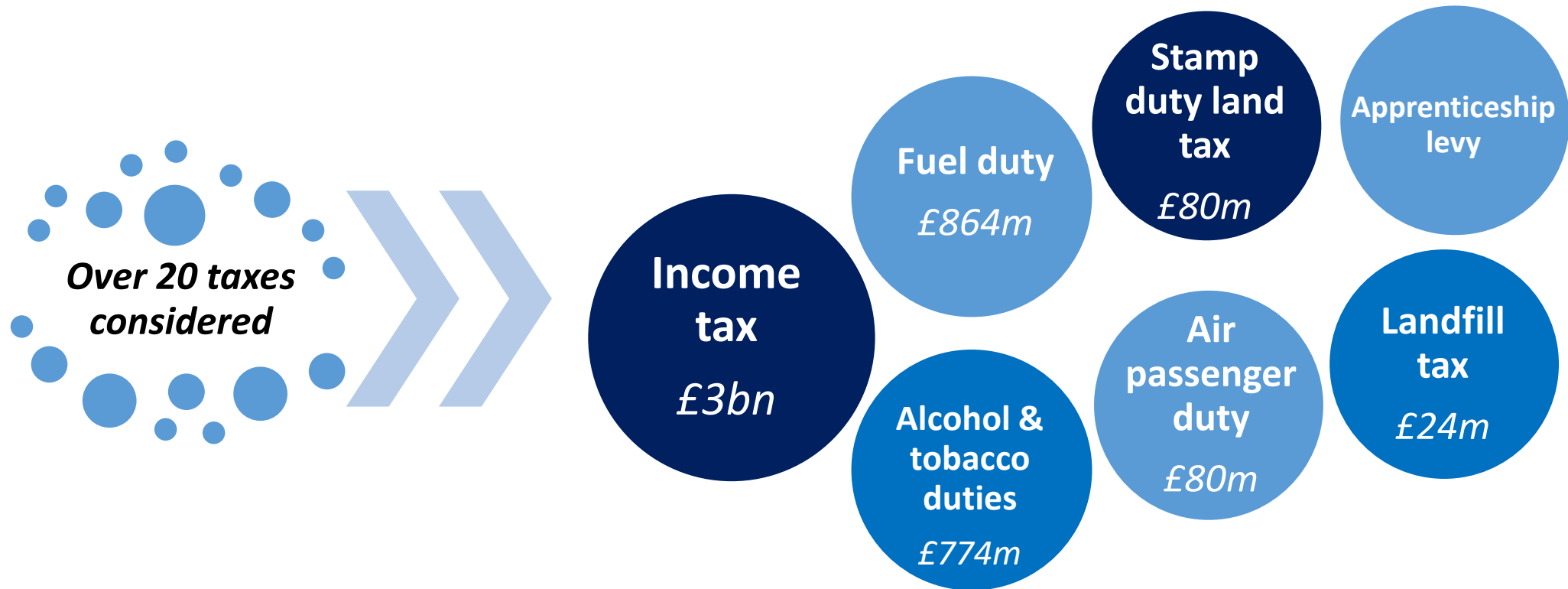
No reason in principle why, in the long term, a substantial fraction of current taxes could not be devolved

Northern Ireland should not seek the devolution of more than one 'major tax' at this time

Arguably, Northern Ireland should look to pursue smaller taxes in the first instance

Northern Ireland should take on further powers gradually

# We have looked in detail at over 20 different taxes...



## Income tax

- *The big three* account for close to two thirds of NI tax take.
- If the NI Executive is to have the capacity to raise serious amounts of revenue, or effect significant redistribution, then **it is likely to need some powers over one of these taxes.**
- Income Tax already devolved in Scotland and Wales, so administratively possible. Probably the most salient of all the taxes. Most suited to achieving redistribution.
- **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 degree of control over rates and bands.
- Will also consider devolution of **apprenticeship levy** alongside income tax given the likely administration costs of pursuing this tax in isolation.

## Excise duties (*fuel; alcohol & tobacco duties*)

- **Situation in NI is different to Scotland and Wales. Arguably reversed with regard to excise duties.** No land border with England, but with RoI. A case for allowing Executive to set duties different from UK.
- The **big possible barrier relates to administration, compliance and enforcement.** Due to structure as a tax, levied at the production and import stage rather than by retailers at the point of sale.
- 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

- **As a tax on property, SDLT is well suited to devolution.** 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
- It has been successfully devolved to Scotland and Wales, and **significantly reformed by the Scottish Government.** Administratively possible.
- A key issue for further investigation will be to consider how administration costs could be minimised.

## Air passenger duty

- **Policy debate around APD is relatively high profile** in Northern Ireland.
- Particularly in terms of the contrast with aviation tax policy in RoI and the perceived impacts on economic development and connectivity.
- Relates to the NI Assembly's existing responsibilities in relation to the environment, transport and economic development.
- 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.

## Landfill tax

- Concerns around ability to move waste are less pressing in the Northern Ireland context given the absence of a land border with GB, but RoI context more important.
- **Closely linked to the existing environmental and land-use responsibilities of the NI Assembly.**
- From an administrative perspective, devolution should be relatively straightforward (it was in Scotland and Wales), reflecting the small number of taxpayers (landfill operators).

# Corporation tax... a complex case

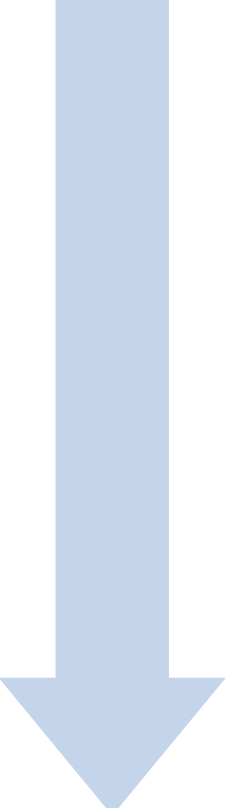
- The case is all about the opportunity to improve economic performance. It is different than the other taxes we have considered
- Long history surrounding a rate with legislation already in place, although never ‘commenced’



## Evidence that it would be a strong economic lever...

- Studies suggest it would make NI a more attractive location to invest – boosting economic output, employment and wages
- Legislation already in place, administration progressed
- Relatively well understood tax in NI

## However, comes with technical and political complexities...

- Potential for significant economic distortions / complexities around administration and large cost to NIE
  - Need for agreement over block grant adjustment - direct revenues; behavioural; spillovers?
  - Highly uncertain environment and vulnerable to international changes
- 



- **Commission pre-requisites for successful devolution:**
  - 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.

# Taxes not prioritised for further investigation...

## *Taxes where there is a case in principle for devolution, but are less of a priority*

- Value added tax
- National insurance contributions
- Vehicle excise duty
- Capital gains tax
- Betting and gaming duties
- Inheritance tax
- Climate change levy
- Aggregates levy

## *Taxes that are not strong candidates for devolution in Northern Ireland*

- Insurance premium tax
- Stamp duty on shares
- Soft drinks levy
- Taxes on specific business activities

## Next steps and questions for stakeholders...

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