



91 Dundela Avenue
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Mr. Paul Johnson
Chairman of the Independent Fiscal Commission for Northern Ireland

19th January 2022

Re: Response to Interim Report of the Northern Ireland Fiscal Commission

The Democratic Unionist Party notes the findings and recommendations made in the interim report published by the Fiscal Commission.

QUESTION 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? If you disagree, can you explain where your analysis differs? Are there additional factors that we should also consider?

Whilst we agree with the understanding and representation within this report of why fiscal devolution might be considered important, we are also pragmatic in our considerations and do not believe that the necessary capacity exists in the contemporary context of Northern Ireland to devolve further fiscal powers. Issues raised within the report, such as ‘political and institutional resilience, as well as economic and administrative capability and capacity’, all need to be considered and it is our view at this time that we would not support the devolution of additional fiscal powers to Northern Ireland.

QUESTION 2 - Do you agree with our understanding and our representation of the current Northern Ireland context? If you disagree, can you explain in relation to which aspects?

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We strongly agree with the statement ‘...*the pursuit of smaller taxes in the first instance is likely to be a more prudent and appropriate path to allow the development and embedding of capability and capacity ahead of further devolution...*’. In the current Northern Ireland context, we don’t believe that the capacity is there to manage the devolution of the ‘headline’ taxes as described, which are fundamental to our entire economic system but there is an opportunity for some of those taxes with a greater local emphasis to test local capabilities and political capacity. There will be a cost associated with doing so but this is manageable.

QUESTION 3 - Do you agree with our analysis of the suitability or otherwise for devolution of the individual taxes listed in Chapter 4? If you disagree, can you explain where your own analysis may differ and how?

As we have consistently highlighted, we believe that there are a number of fundamental weaknesses with our model of devolved government which will ultimately undermine the potential for additional fiscal powers being devolved to the Northern Ireland Executive/Assembly. It is also ironic that despite a long campaign asking for the devolution of Corporation Tax powers, which was supported by ALL the Executive parties, once this was achieved the political will was lacking to use it as a tool to stimulate our local economy. There is a need for a much greater level of stability before we should consider significant additional changes to the fiscal powers in Northern Ireland.

Whilst we recognise, as in the case of Corporation Tax, the merits of devolving certain tax-raising powers for the advantage of the devolved area, we believe that Income Tax should remain the responsibility of HM Treasury in London. We are disappointed that more has not been made with the additional Corporation Tax powers and hope that in a new mandate with a refreshed Programme for Government, this will be a key element of our economic development package.

We are content to examine the list of additional taxes and how they might be appropriately devolved to Northern Ireland. However, the cost implications around the block grant must be taken into consideration. Given the costs of the ongoing pandemic there is a great strain on local and national public finances and we would question whether this is an appropriate time to take further such fundamental change. We would prefer

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a greater sense of political and financial stability to exist before fundamental changes to governance are to be considered.

QUESTION 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? If you disagree, can you explain which taxes you believe should be treated differently and why? Can you provide information which would support or detract from the potential devolution of Excise Duties to Northern Ireland?

We do not believe that income tax should be devolved to Northern Ireland. We would question whether the administrative capacity is in place to manage what is an extremely complex and fundamental element of the taxation system.

In respect to the apprenticeship levy we wish to see a reform of this system and are willing to consider innovative proposals to make the system fairer and more effective. Whether this means having it fully devolved to Northern Ireland should certainly be part of the consideration, however the key factor must be the development of a fairer system which will provide greater support for local employers and truly benefit those who are reliant upon it.

In the case of Air Passenger Duty, we believe this should be abolished altogether by the UK Government rather than being devolved. Whilst the Chancellor has announced a future 50% cut, he should have abolished it completely immediately. It is driving up costs for those who need to travel and destroying local airports, especially in Northern Ireland where we are competing with Dublin.

In the case of the others - Fuel duty, Alcohol and tobacco duties, Stamp duty land tax and Landfill tax, we remain to be convinced of the merit of diverging from the UK system in these other cases but will give consideration as to whether there is a case to do so. We recognise the local factors which may strengthen the case for devolution but it cannot devolution for the sake of devolution. It must make fiscal sense and based on

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long-term strategic thinking as opposed to short term political advantage. The issue of fuel, alcohol and tobacco taxation are particularly sensitive to cross-border factors and we as a party have long highlighted the criminal activities by some in relation to these areas. Whatever decision is taken in relation these, it must be accompanied by an action plan to tackle evasion and dismantle the gangs who profit from it.

We are also content with the list of taxes suggested as not being appropriate for devolution at this time with one minor consideration. There has been a campaign for the lowering of Value Added Tax (VAT) in respect to tourism, similar to a change which was implemented in the Republic of Ireland. we would ask that further consideration is given to this specific element and that a report be brought forward on the feasibility and cost implications.

In closing, we look forward to further engagement on these matters, and will continue to develop workable solutions on the best way forward, in the context of the challenging economic times we face.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jeffrey Donaldson', written in a cursive style.

Rt Hon Sir Jeffrey Donaldson MP
Leader, Democratic Unionist Party

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