Northern Ireland
Chamber of Commerce
and Industry

NORTHERN IRELAND CHAMBER OF COMMERCE AND INDUSTRY

RESPONSE TO THE FISCAL COMMISSION REPORT "MORE FISCAL DEVOLUTION FOR NORTHERN IRELAND?"

1.0 INTRODUCTION

Northern Ireland Chamber of Commerce and Industry (NI Chamber) welcomes the opportunity to respond to the Fiscal Commission's interim report - "More Fiscal Devolution for Northern Ireland?"

With 1,000 members, representing almost 105,000 employees, NI Chamber has supported the development of the economy for over 235 years and is 100% funded by the private sector. We work across all of Northern Ireland, helping SMEs to grow and export and larger firms to thrive.

Our membership spans businesses across key sectors including manufacturing, construction, professional services and a broad range of wider services. We consult with these members on a regular basis, around all issues/concerns that they face in doing business locally, nationally and internationally.

We therefore believe that the Fiscal Commission's report is an extremely important report that adds to the evidence base and conversation on how taxes are raised and how public services are funded in NI. We would like to thank the Chair, Commissioners and staff in the Secretariat for their hard work and meaningful engagement with the business community over the year and congratulate them on this first publication. This response details NI Chamber's perspective on the four questions posed in the report, plus some wider observations. Our team and members will be happy to discuss and engage further with the Fiscal Commission as their work progresses onto the next stage.

2.0 OUR RESPONSE

2.1 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?

Focus on incentivising economic growth, as much as redistribution and behavioural change

NI Chamber agrees in general with principles of why additional fiscal devolution might be considered important in terms of building a better future for NI, its citizens and businesses that operate here. However, there is a need for broad political and civic engagement on the likely trajectory of tax changes and an assessment of the different groups who may be winners and losers as a result of each of the changes. The tone of the report, in general, leans towards higher rates of taxation and public spending focussed on redistribution and behaviours, rather than boosting investment and the economy. We understand that the business perspective is only one of many, however it is an important perspective as businesses across NI generate a large proportion of the activity and in turn a large proportion of the taxes being paid.

Therefore, and as noted in our earlier engagements with the Fiscal Commission, NI Chamber is keen to ensure that business competitiveness is one of the key themes that the Commission considers in the review of the first report and encompasses in the second stage and beyond. We are keen to ensure that businesses in NI are competitive on a global stage and generate income for NI from exports, growing the economy, creating sustainable jobs, paying wages and funding the associated income tax, NICS, CT, VAT and other tax payments. The fiscal regime is a key component of the cost of doing business, influencing overall competitiveness and therefore, should feature heavily in any consideration for tax devolution and deployment of a differential rate.

NI Chamber feels that it would be helpful to focus more on economic growth, with a broader discussion about potential tax reductions or tax credits to stimulate investment as well as redistribution and tackling negative externalities that are evident in the behaviour of some consumers.

2.2 Question 2 - Do you agree with our understanding and our representation of the current Northern Ireland context?

Make efficient use of existing resources before devolving and raising taxes
NI Chamber broadly agrees with how the current NI context is detailed, however the root causes (such as MASN caps depleting the human capital supply, underinvestment in gross fixed capital formation and public sector inefficiencies etc. could be detailed more specifically). The report rightly points out that spending per capita is higher in NI than in other UK countries, but stops short of noting that for those higher levels of per capita spending, outcomes often fall short.

Examples include the failure to meet waiting list targets in terms of healthcare, whilst other UK countries deliver better outcomes with lower per capita inputs and in terms of education, where NI spends more per capita and but per pupil than other UK countries (by funding over 50,000 empty places in schools).

This suggests that there are institutional and administrative inefficiencies across the system, and this should be an area of focus (working in tandem with the Fiscal Council) when setting the context within which NI operates. The point that follows on is that prior to raising more income from devolution, that these inefficiencies must be addressed to ensure that extra revenues can be deployed effectively to generate better outcomes for society.

Consider the wider economic and financial context – triple whammy of inflation, budget cuts and tax rises…
An additional area of context that might helpfully set the scene is in terms of the recently published NI draft Budget 2022-25 which notes that the Department for the Economy will suffer a 27% reduction in resource budget over the period. Inflation is currently 5.1% and energy prices have doubled in many instances increasing significantly the cost of doing business in NI. It looks likely that business supports will need to be scaled back in NI due to budget constraints, at a time when costs are rising. To further increase tax burdens beyond UK rates (that are increasing anyway) will result in a "triple whammy" for businesses in NI.

2.3 Question 3 – Do you agree with our analysis of the suitability or otherwise for devolution of the individual taxes listed in Chapter 4?

Corporation Tax – has it lost all of its appeal?
NI Chamber broadly agrees with the analysis of the suitability (or not) for devolution of individual taxes listed in the report.

However, it is interesting and noteworthy that the Commissioners concluded that Corporation Tax was not a suitable option for devolution to NI, given the progress made over the last decade and the support from the business community as a tool to spur additional FDI investment, economic growth, rebalance towards a larger private sector (generating other additional tax revenues) and close the productivity and employment gaps referred to in the early stages of the report.

Indeed, the main reasons given for not devolving Corporation Tax (the collapse of the Executive at the time, putting Executive finances on a sustainable path and agreeing the block grant adjustment) all apply to the devolution of all taxes. Interestingly, EU Exit and the implementation of the sea border will mean that better evidence exists of where products are made and consumed within the UK, and further research on this area would be helpful. Issues such as profit shifting could be managed if HMRC data are suitably complete to facilitate the process.

It is acknowledged that the general direction of Corporate Taxation across the globe is on an upward trajectory, however, Ireland will remain competitive at 15% - a full ten percentage points lower than the UK rate from 2023 providing a significant comparative advantage over NI.

NI Chamber would ask the Commission to reconsider the exclusion of Corporation Tax on the grounds that it has the potential to grow the private sector, generating income tax, NICS and other VAT incomes in the longer term and that the reasons for its exclusion also apply to those taxes suggested for devolution.

Long-haul air passenger duty was devolved to NI in 2012, although no flights are currently in operation and NI continues to pay the fee of £2.3m annually. NI Chamber would ask that this anomaly should be investigated and resolved as part of the devolution of APD, although a specific route-based subsidy may prove more effective and have lower levels of deadweight than APD reductions on all flights and therefore all options should be considered.

The Apprenticeship levy is a significant issue for large businesses in NI, who bear the costs of the levy without any benefit. NI Chamber welcomes the recommendation to devolve the levy but would encourage the Commission to devolve as soon as practical, rather than dovetailing with other taxes.

2.4 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?

Broad agreement with prioritisation of taxes for devolution, although Corporation Tax should be included
NI Chamber broadly agrees with the conclusions regarding the prioritisation of specific taxes for the second phase of the Fiscal Commission's work. However, as earlier noted in the response, NI Chamber disagrees with the exclusion of Corporation Tax and urges Commissioners to reconsider the basis upon which it is excluded and add it to the priority list for the second phase of the Fiscal Commission's work. As noted above, the reasons for disagreement are;

- Lower Corporation Tax rates have the potential to grow the private sector, generating income tax, NICS and other VAT incomes in the longer term addressing many of the economic challenges that are detailed in the opening chapters of the report;
- The reasons for its exclusion (the collapse of the Executive at the time, putting Executive finances on a sustainable path and agreeing the block grant adjustment) also apply to all other taxes suggested for devolution.
- Issues such as profit shifting can be managed using HMRC data if the quality is suitable.
- The implementation if the Irish sea border means than many companies have the administrative framework to operate two differential rates.

Rapid correction of the Apprenticeship Levy anomaly
NI Chamber understands why the devolution of the Apprenticeship Levy would benefit from dovetailing with other taxes, however it recommended that this is a priority area for devolution and deployment to put NI firms on an even competitive footing with their GB counterparts.

More information on how the Green agenda and tax devolution will work
More broadly - as the report points out - there will need to be agreement on the green agenda and commercial and competitiveness implications of changes in taxes such as APD and fuel duties, a consideration of how NI delivers net zero 2050, the energy strategy and its part in the climate change obligations. One current example is the phasing out of red diesel for most sectors, which will inhibit NI business competitiveness in an international context.

3.0 CONCLUSION

The report is a welcome addition to the evidence base and conversation in terms of how we fund public services in NI. NI Chamber recognises the significant efforts in researching and writing the first report congratulates everyone involved in getting to this point.

Increased focus on international competitiveness and incentivising growth
As the Fiscal Commission begins work on its second report, delving further into the practicalities, costs, benefits and risks of devolution of each of the taxes, we would encourage Commissioners to include greater focus on the international competitiveness of businesses in NI and the combined impact of UK wide tax rises, as well as redistribution and influencing consumer behaviour.

Wider understanding of the context within which businesses are operating
Businesses have weathered the COVID-19 and EU Exit storms so far – and both will continue to deliver challenges. Inflation is now 5.1%, the highest level for three decades and energy prices continue to increase. The draft budget indicates that the Department for the Economy could face a 27% reduction in its resource budget and a range if UK taxes are increasing

(NICS and CT for example) to reduce the UK budget deficit. Therefore, the cost of doing business in NI has increased markedly and will continue to increase eroding competitiveness, which should form part of the consideration for the direction and scale of changes to devolved taxes.

Reconsider the exclusion of Corporation Tax from the list of taxes to be devolved
Corporation Tax is one of the key business taxes and the 10-percentage point comparative advantage that Irish firms will have from 2023 should be considered. The reasons cited for not devolving CT also apply to other taxes and there are solutions to the complexities discussed. NI Chamber asks the Commissioners to reconsider their position on Corporation Tax and include it in the second stage of analysis.

Thank you for engaging with NI Chamber and please do not hesitate to get in touch if the Commission requires further detail.

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