Feedback to the Independent Fiscal Commission for Northern Ireland on its Interim Report

From: Ulster University Economic Policy Centre

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Thank you for the opportunity to respond to the Independent Fiscal Commission NI's interim report. Firstly, the UUEPC welcomes this research as an important step in Northern Ireland taking greater control of its fiscal future and increased local accountability. We also recognise the significant work undertaken by the Commission and the thoroughness of the research.

Some general points first:

- The tone of the report suggests a general increase in taxes to fund more extensive public services. Although one of the five criteria included consideration of the economic and policy context, in the final analysis taxes to support economic growth and improve competitiveness don't seem to have made the cut.
- The efficiency and effectiveness of public spending is important in advance of devolution of further taxes to NI. The report notes that NI spends more per capita but the report doesn't discuss outcomes and perhaps there is the potential to reference the work of the Fiscal Council here.

The remaining comments are restricted almost exclusively to Corporation Tax, but for completeness we have given a response to each of the questions you have posed.

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?

Yes, agree with your understanding and representation of the importance of Fiscal devolution and nothing further to add on the context.

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

Yes, in particular your point regarding divergent trends between NI and rUK is well made. Given NI's poor relative performance there is a significant risk that over time NI would become worse off if tax powers are devolved (assuming the Scottish and Welsh BGA approach is taken). This is not well understood, by key stakeholders locally. This should also be highlighted as a risk.

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

Only choosing one of the 'major taxes' for devolution in this first phase is a reasonable (lower risk) position to take and one we would agree with. Devolving income tax also appears reasonable, particularly given the position in other regions (e.g. Scotland). Given skills issues identified through research and consistently raised by employers, we would be very supportive of the apprenticeship levy also being devolved.

The remaining comments focus on the decision not to devolve Corporation Tax (CT):

- Many of the reasons provided for not devolving CT and the pre-requisites identified for successful devolution, could apply equally to all taxes being considered for devolution. For example, in the current draft issues such as: needing to balance the budget/ sustainability of finances; and the need to demonstrate how the powers would be used are identified as relevant to devolution of CT, but not mentioned in respect of devolving other taxes such as income tax.
- Following on from the point above, one potential reason why CT may be considered as different from the other taxes, is the significant additional cost associated with aligning the CT rate in NI with the RoI rate. In contrast, it is likely that any changes to Income Tax would be in the range of +/- 1%-2% from the UK rate, therefore any change would be much more affordable. The other smaller taxes identified would also have only limited affordability issues. If true, this raises a couple of points:
  - The Commission are making an implicit assumption that the NI Executive would move immediately to the RoI rate of 12.5% and hence would need borrowing powers to cover a potential temporary shortfall. However, this may not be the case. Given the budgetary constraints currently faced by the NI Executive, there is an option to adopt a policy position which seeks to align with the RoI rate over a longer period of time (say 5 to 10 years).
  - There is also the opportunity to consider the new devolved taxes in an holistic manner, whereby the NI Executive could increase some taxes to help fund tax reductions elsewhere.
- Your analysis recognises that CT has the potential to be used as a major economic policy lever, and whilst there is current debate and uncertainty around global CT rates, it is almost certain that the UK CT rate will rise more than the RoI CT headline rate in the medium term. Therefore, an increased differential between the UK and RoI CT rate would also increase the potential effectiveness of devolving CT as a policy measure to NI.
- Attitudes to the devolution of CT are mixed in NI, even within the business community, and this has often been cited as a reason not to devolve the tax. However, this misses an important point. The experience in the RoI shows that their lower CT rate was an important policy measure in attracting FDI (alongside other policies such as investment in skills) and a similar outcome could reasonably be anticipated for NI. As a result, the primary audience for a lower CT rate are <u>potential</u> FDI companies (i.e. businesses <u>not</u> currently based in NI). Policy is often about creating an environment for those currently not present in the market. We note from the wider stakeholder engagement list, you have sought the views of Invest NI, but it may be beneficial to engage with other private sector FDI specialists and also note the significant number of studies which show that lower CT results in increased FDI. This may help inform your final conclusions.

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?

No issues with the prioritisation.