



The Independent

Fiscal Commission NI

Corporation Tax

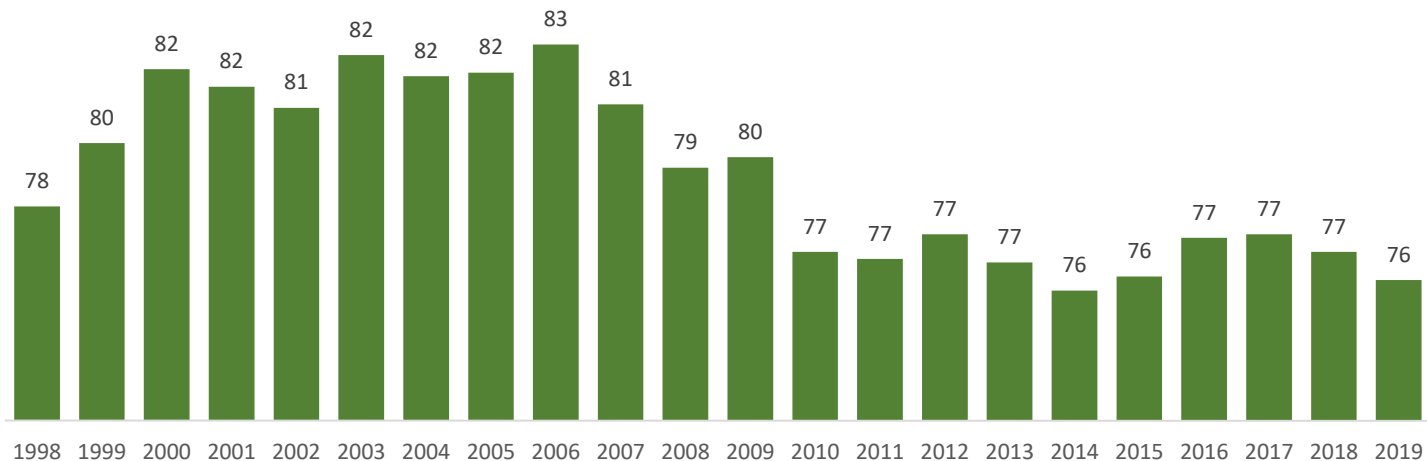
Aidan McMahon

Fiscal Commission NI
12 August 2021

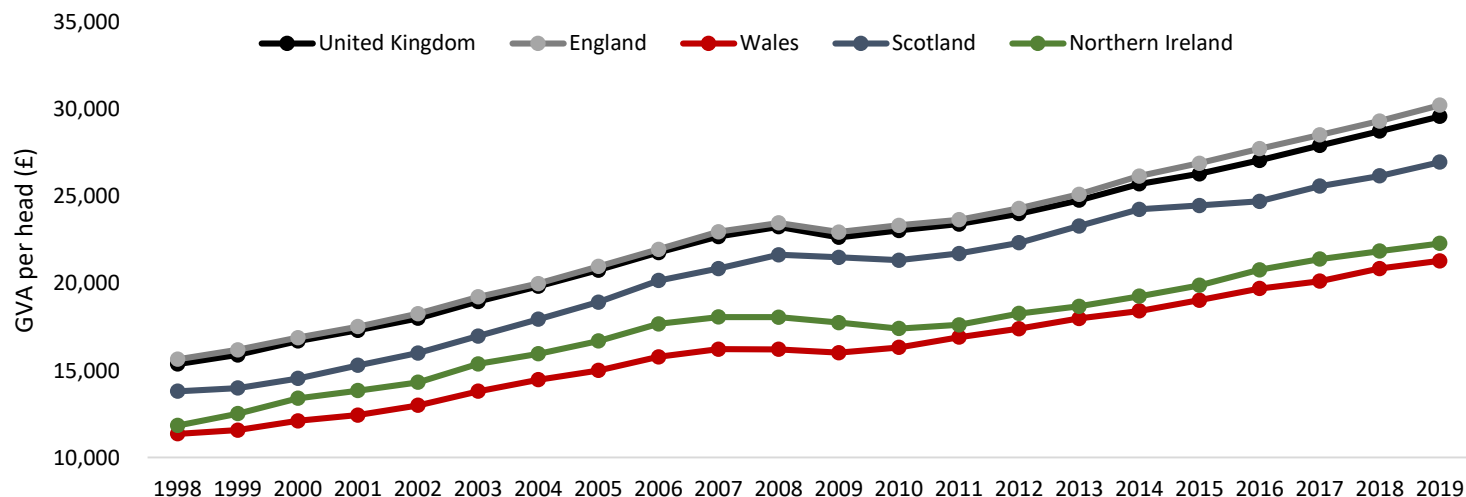
- **Policy Rationale**
- **Timeline of Events**
- **The Regime; Costs and Benefits**
- **Resolved vs Outstanding Issues**
- **Now and Next steps**

Policy Rationale - The need for change?

GVA per head NI (UK =100), 1998-2019



Regional GVA per head, 1998-2019



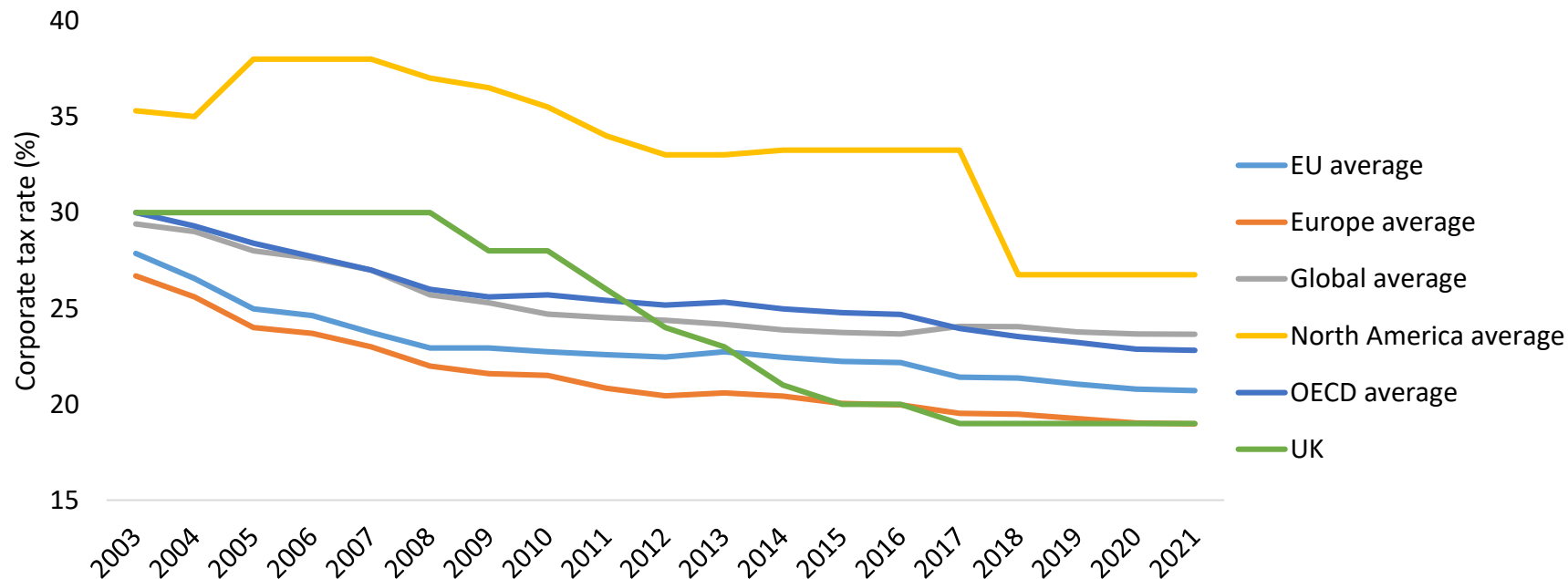
Sources: ONS - Regional gross value added (balanced) per head and income components, May 2021

- Living standards (GVA per head) now down to **76%** of the UK average
- Structural issues:
 - Low productivity and wages
 - Smaller private sector
 - Underrepresented in high value sectors
 - High inactivity
- The economic interventions / tools we have been using **aren't working** to address these

Policy Rationale – global tax rates

- Corporation Tax used as a competitiveness policy lever on a global level.
- Global Corporation Tax rates declining – idea for NI to undercut in order to incentivise FDI (effective CT rates important)
- Direction of travel could now be changing post-COVID-19; administration change in the US; OECD.

Global Average Corporate tax rates, 2003-2021



Source: KPMG online tax rates tool

Policy Rationale – NI, UK and ROI 2010 vs 2020

Key Takeaways



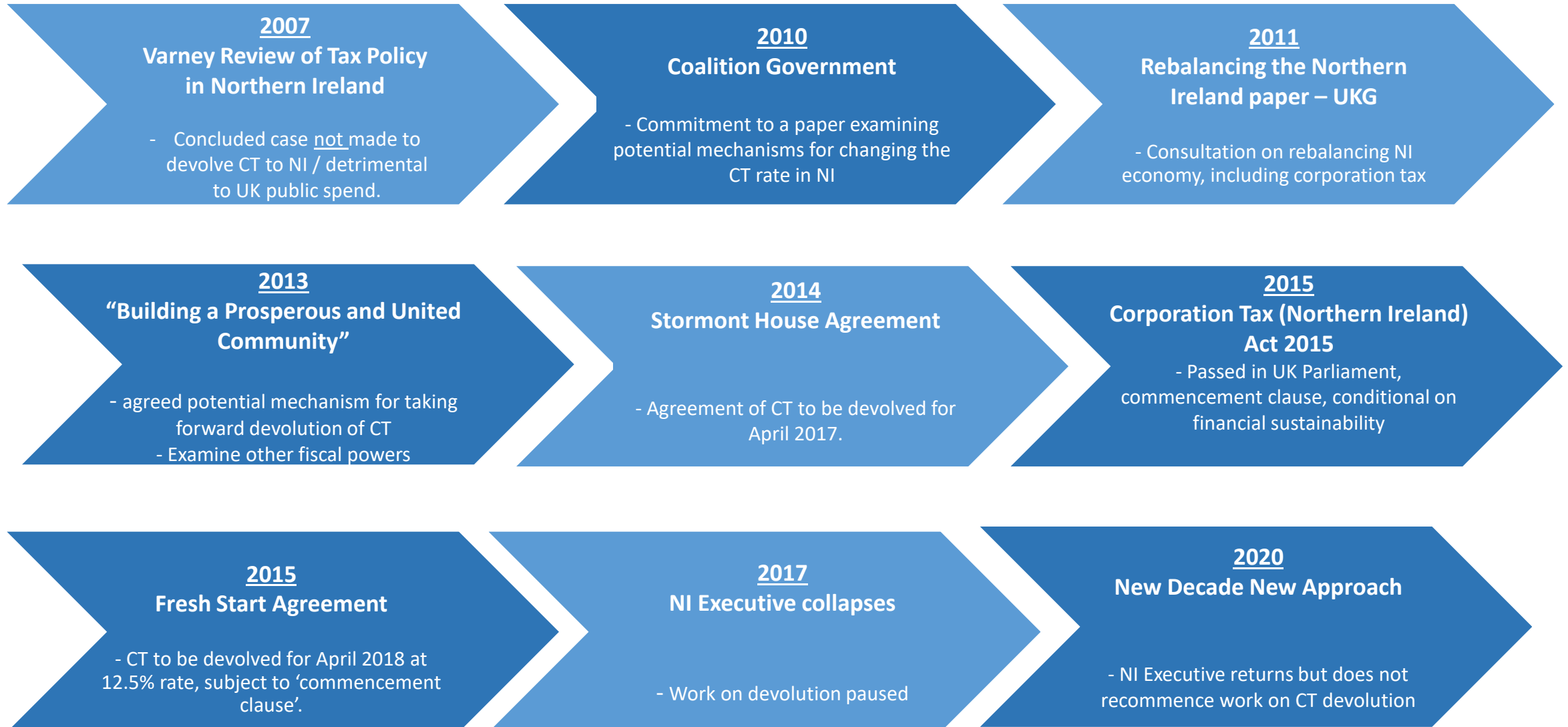
1. Value of CT Receipts per person much higher in ROI vs UK / NI

2. Growth in CT Receipts in UK despite reduced CT rate (business cycle to be noted)

	NI		UK		ROI	
	2010	2020	2010	2020	2010	2020
Corporation tax rate	28%	19%	28%	19%	12.5%	12.5%
Corporation tax receipts	£447m	£810m	£34,398m	£48,983m	€3,944m	€11,833m
Value of receipts as % of total tax take	3.2% (of NI) 0.08% (of UK)	4.1% (of NI) 0.10% (of UK)	6.2%	5.9%	12.3%	21%
Value of receipts as % of GDP	1.23%	1.88% (2019)	2.21%	2.20%	2.4%	3.2%
Value of receipts per person	£249	£428	£551	£733	€866	€2,377

Sources: ONS - Country and Regional Public Sector Finances, CSO (data.CSO.ie); Irish Revenue Ireland Corporation Tax – 2020 Payments and 2019 Returns
 Note: widely recognized issues with ROI GDP, GNI often used as a more appropriate comparator, which increase % in table if GNI used.

Timeline – background to Corporation tax in NI



Regime - encourage investment (max benefits/manage costs)

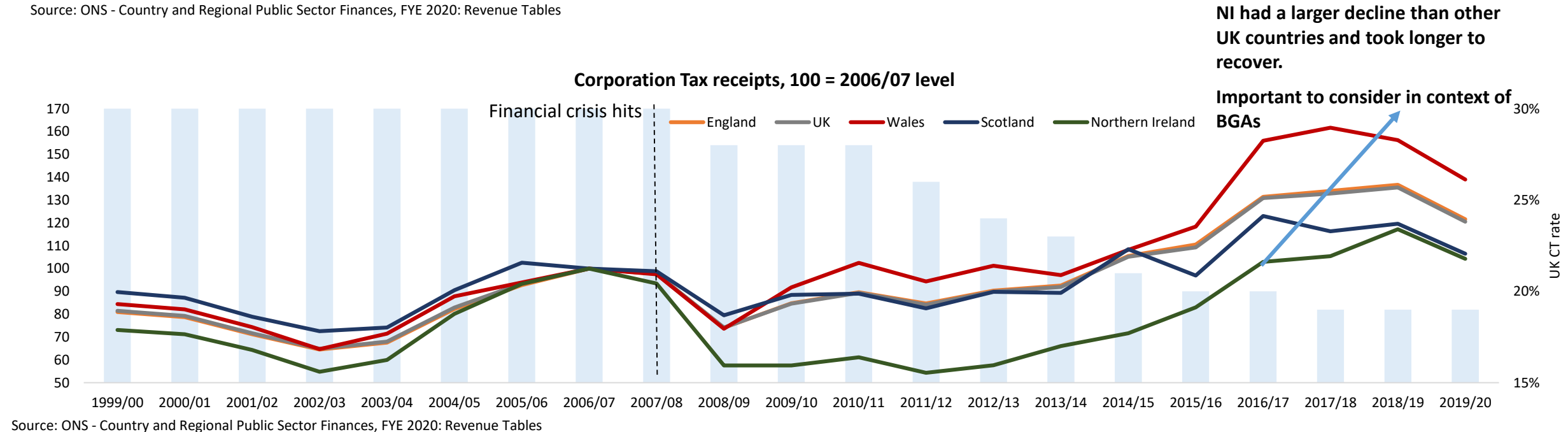
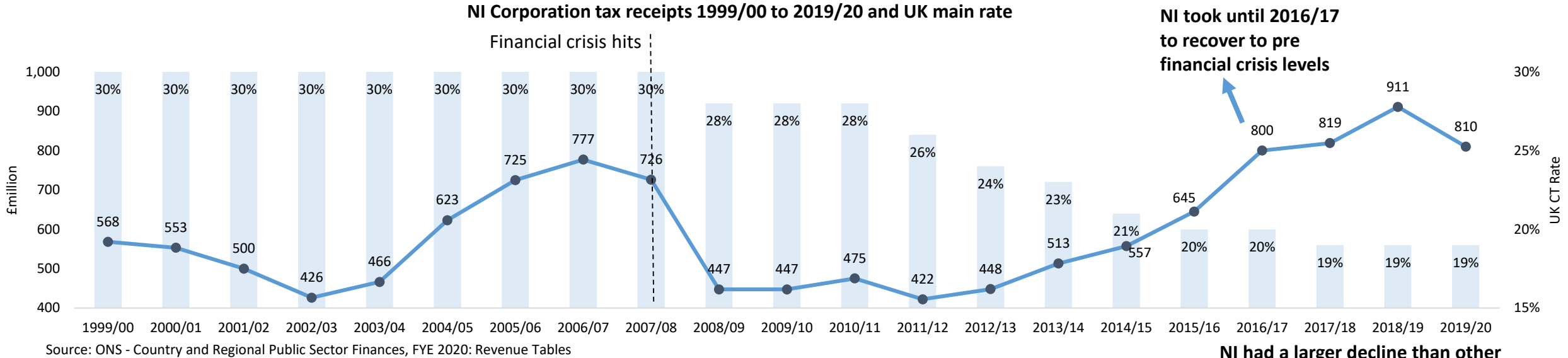
Trading Profits only – *to focus on promotion of real economic activity*

Some activities excluded – *to avoid profit shifting and disproportionate cost*
(e.g. lending & investment, certain insurance activities)

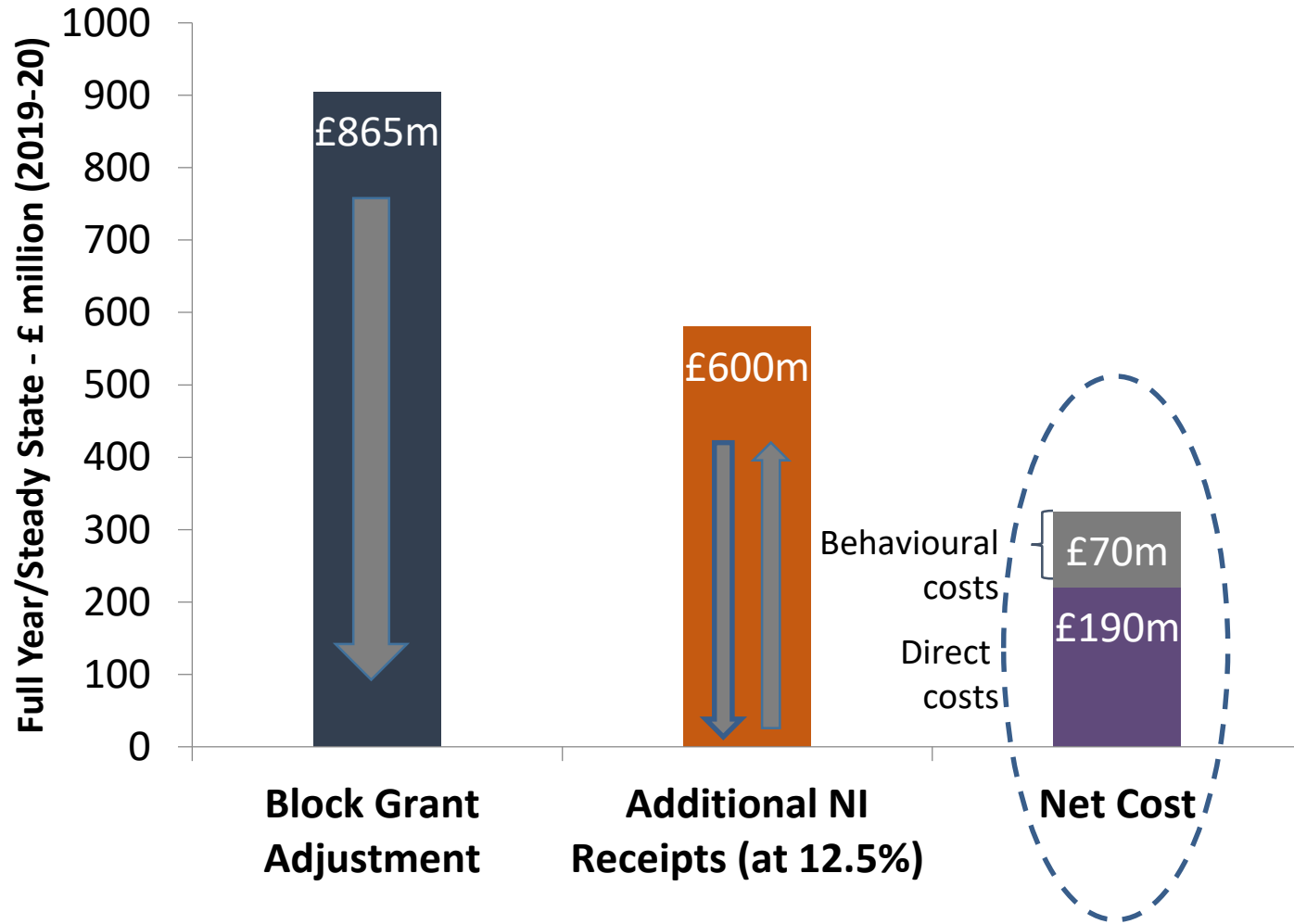
Back office functions included (by opt-in) - *to maximise employment growth potential*

Special regime for SMEs – *to manage costs to business*
(SMEs qualify where 75% of staff time and costs occur in NI)

Costs – Corporation Tax Receipts in NI



Estimated Costs – 2019-20



Source: UKG/HMT estimates; sums may not total due to rounding

Notes: Costs estimated at Aug 2017; Policy start date April 2018; 'Accruals' approach

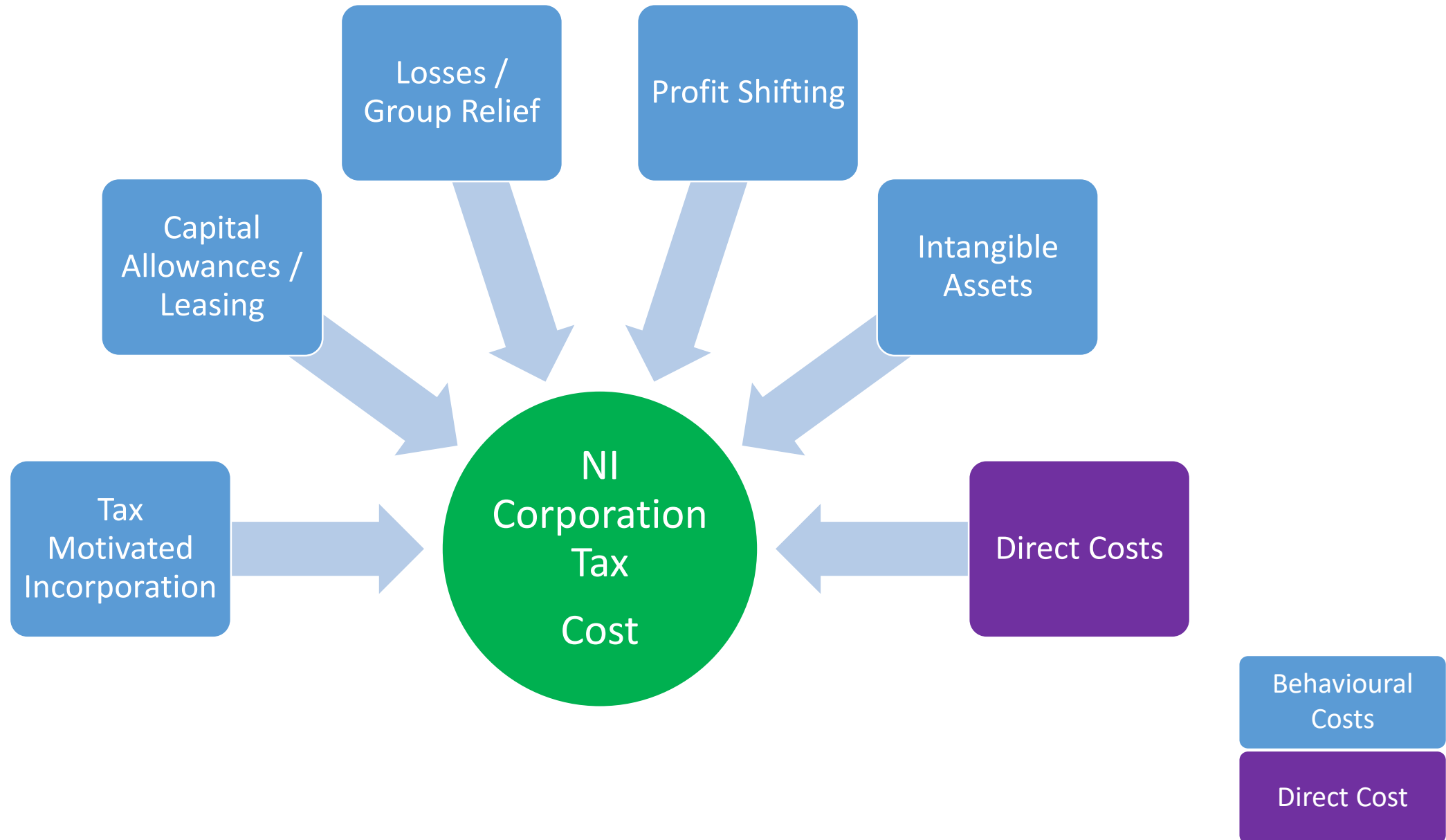
Important:

- UKG estimates; NIE / experts had significant methodological concerns; behavioural cost in particular; **costs never agreed**

- Important to get '*NI regime*' costs

- Set up costs (e.g. c£2.5m for IT design identified) and running costs of NI regime (c£2-3m pa).

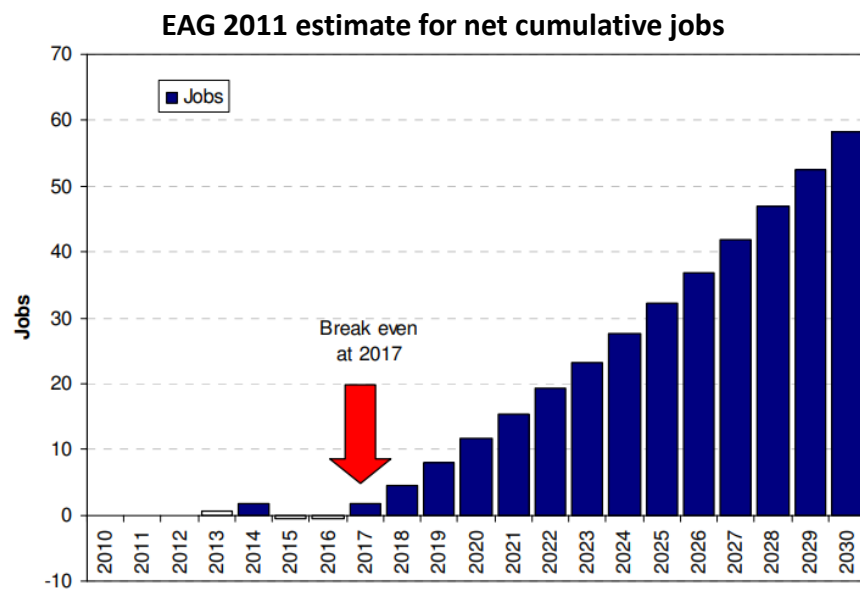
Costs – direct and behavioural...



Benefits – employment estimates have evolved...

EAG report 2011

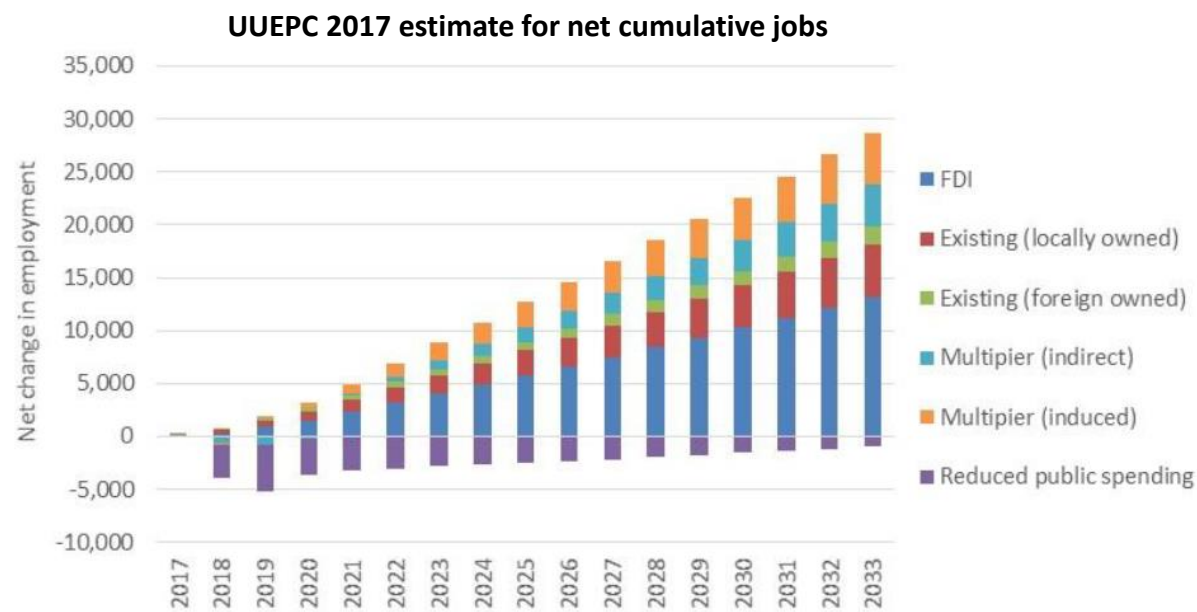
- 58,000 net additional
- Early years of the policy, there are public sector job losses
- Returning to a positive impact in 2017 and accelerating throughout the forecast period
- Average of over 4,500 additional jobs per year in the longer-term, throughout the economy, peaking at almost 5,800 per annum by 2030



Source: EAG report 2011

UUEPC Report 2017

- Changing UK rates impact on estimates.
- 27,700 additional jobs by 2033
- 3% higher than against baseline forecasts
- Initially a reduction in employment due to public sector expenditure cuts but positive impact from 2021 onwards.



Source: UUEPC 2017 report

Benefits – ...as have other estimates over time

EAG Report 2011

- GVA per capita, forecast to be £24,500 per person, which is **13.5% higher than the baseline**.
- Average annual GVA, is forecast to be around one percentage point higher per year with the economy **13.8% larger by 2030**.
- GVA per worker forecast to be **6.6% higher than the baseline by 2030** (at £52,300 per worker).
- Exports forecast to be 34% higher than the baseline, valued at £15 billion in 2030.

UUEPC Report 2017

- **£2.6bn in additional GVA** in NI by 2033. 6.1% increase over baseline forecasts.
- Productivity forecast to be **2.9% higher than baseline forecasts** by 2033 (at £50,800 per worker).
- Wide **range of sectors expected to benefit** as the supply chain and spending effects reach a number of domestically focused sectors that might not enjoy an immediate direct impact from the proposed increased FDI.

What has influenced changes in estimates for costs and benefits?

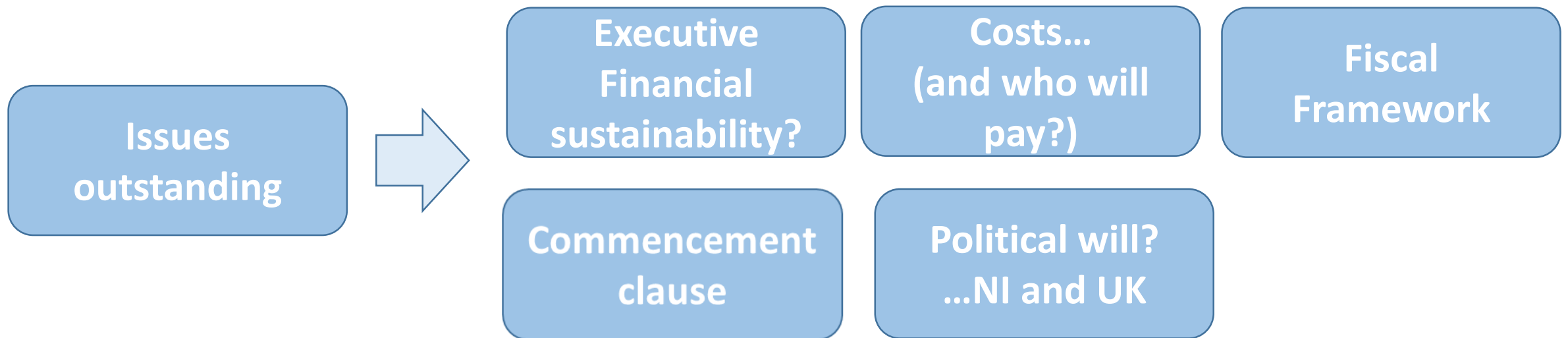
- One of the biggest drivers in changes in the estimates of the costs and benefits of a devolved NI policy has been, **changes in the main UK Corporation tax rate** – had been declining 2007 to 2017, but will now rise to 25% by 2023

	2007	2008	2011	2012	2013	2014	2015	2017	2023
UK Main CT Rate	30%	28%	26%	24%	23%	21%	20%	19%	25%

Corporation Tax – Resolved vs Outstanding Issues



NB: All these issues likely need updated



Corporation Tax – Now and looking forward

NI Executive policy

- Currently no active policy on the devolution of Corporation Tax.
- Finance Minister stated that he is not "*actively pursuing*" a cut in corporation tax stated that changes in economic and political circumstances means the issue has now "receded" and "*a cut in corporation tax can only happen if it is affordable*".

UKG policy

- UK Corporation tax policy, changes announced at Budget 2021 - main rate increase to 25% and introduction of a small business rate from 2023 onwards.

Global attitudes

- President Biden proposals for changes to US tax regime
- Proposals (led by US) for global 15% minimum Corporation tax rate agreed by G7 in June 2021
- G7 proposals for companies pay more tax wherever they sell products or services

ROI impact

- Global changes could impact on ROI's 12.5% rate?
- ROI Finance Department forecasts for future tax revenue include impact of international tax reform on corporation tax receipts – this assumes a €2 billion loss relative to baseline (i.e. vs no reforms) by 2025

Corporation Tax – Next steps?

- Consider against our assessment criteria within wider Corporation tax context for NI

