



Chartered Accountants Ulster Society

**Position Paper: Varying the Rate of Corporation Tax in Northern
Ireland**

September 2010



Chartered Accountants Ulster Society

Position Paper: Rate of Corporation Tax in Northern Ireland

Introduction

Chartered Accountants Ulster Society represents some 3,300 Chartered Accountants in industry, practice and in the voluntary and public sectors and is a district Society of Chartered Accountants Ireland, the oldest and largest professional body of Accountants in Ireland.

As a group of business leaders in Northern Ireland, we take the view that a strong and sustainable local economy is an essential component in ensuring a better life and greater opportunities for all within our society.

We believe that a strong economy has the potential to positively impact and bring great benefits for education, health, housing and social development. For this reason we welcomed the current Northern Ireland Executive's stated willingness to put the economy at the forefront of its thinking. We would hope that as we plan for recovery from the effects of global financial crisis, our economy will remain a top priority.

In his Budget of 22nd June the Chancellor George Osborne announced that the Government had re-affirmed its commitment to rebalancing the Northern Ireland economy to boost the private sector. Secretary of State for Northern Ireland Owen Paterson is quoted as saying that this will include a "look at mechanisms for giving Northern Ireland a different rate of corporation tax and other economic reform options."

As an issue, a cut in the rate of Corporation Tax for Northern Ireland has been suggested and debated for decades, but we realise that now is perhaps the clearest opportunity for such a major change in policy to take place.

As a Society of professional advisers and business leaders with the best interests of Northern Ireland in mind, the considered evaluation and judgement of our members can make a valuable contribution to the debate.

The Current Performance of the NI Economy

While there are many economists and agencies that are well placed to offer detailed overviews of our local economy, we believe that a brief outline of the major challenges we face is useful in providing background to the debate and highlighting the areas in which a proposed cut in the Corporate Tax rate might be expected to make an improvement.

Current figures show that Northern Ireland lags behind the rest of the UK in terms of productivity, a key factor in driving economic growth (NI as a region is currently second worst in the UK). Current figures also show that Northern Ireland has the lowest rate of economic activity and the lowest employment rate of the UK regions. Recovery continues to lag that seen in other areas of GB.

It is also well accepted that Northern Ireland's public sector is very large, accounting for almost 30% of employment and with public expenditure above 70% of the value of output (GDP). Northern Ireland has proportionately the largest fiscal deficit within the UK, with more than 40% of public expenditure in the region being financed by the central exchequer.

The rationale expressed to date by those campaigning for a reduction in the Corporate Tax rate in Northern Ireland would be a significant stimulating factor in the creation of higher value jobs, be a central plank in the drive to attract Foreign Direct Investment (FDI), put the local economy on a higher growth path. In the longer term these measures would create greater wealth for Northern Ireland thereby resulting in a smaller subvention for Northern Ireland from HM Treasury in the longer term.

Views of Chartered Accountants Ulster Society

Having taken the views of our membership into account there is a clear consensus within our Society on several key points in the debate:

- 1) In principle we support the view that a cut in the rate of Corporation Tax in Northern Ireland could be a major economic stimulus for the region and a valuable tool in rebalancing the economy.**

We believe that the proposed cut of the Corporate Tax rate to match that of our nearest neighbour, the Republic of Ireland, does present the opportunity to provide a step-change in our economy and would be of significant assistance in terms of marketing Northern Ireland as a location for international investment.

Since the start of the year, the Republic of Ireland has attracted 46 FDI projects. Historically the ability of the Republic to attract FDI has been clearly demonstrated and it is accepted that a significant factor influencing those investment decisions was the attractiveness of lower Corporation Tax.

Research of other areas which have taken such a fiscal step is significant and has shown that low Corporate Tax rates have been especially attractive to high

profit/ high value added companies. The benefits of convincing such companies to locate here include the establishment of high value jobs within those companies, but there would be valuable secondary and tertiary benefits to smaller indigenous companies in Northern Ireland, and indeed more opportunity for indigenous start-up companies in such an environment.

2) We believe that it is logical to make the call now for devolution of the power to reduce the Corporate Tax rate to the Northern Ireland Assembly.

We believe that the opportunity for the Northern Ireland Executive to ask for and receive the devolved power to change the rate of Corporation Tax is here now. Whilst “political will” within the UK Government to consider this policy change exists, Northern Ireland should capitalise on this goodwill, as this opportunity may not continue into the future.

In saying this, we are not necessarily calling for the power to change the Corporate Tax rate to be exercised by the Northern Ireland Executive straight away (as we believe there is a need for greater debate around some of the implications of such a change), but rather if the devolution of the power can be achieved, the Assembly can decide to implement a change when they consider the time to be right. Accordingly there is nothing to be lost in first attaining the power to change the Corporation Tax rate, and it would appear that the best opportunity for achieving this is available now.

3) We believe that there is a need for further work to quantify the potential cost of the proposal and to eliminate uncertainty over the commitment which we would be making by reducing the Corporate Tax rate.

It is our understanding that in order to comply with EU legislation, the financial consequences of any reduction in the rate of corporation tax in Northern Ireland would need to be borne by the local administration. As a result, a reduction in the corporation tax rate in Northern Ireland would need to be viewed as an investment in our economy, and as with any investment, there would be issues surrounding the timing of cash flows, a requirement for a longer term view to be taken of the investment as well as the rewards resulting and the element of risk involved.

While our belief is that this investment could provide a step-change to the growth of our economy, it is imperative that the detail and likely costs and of the proposal are investigated. This will help to reduce uncertainty of the expectations of the proposal, but it will also help to produce a more detailed, more compelling case to UK Government and our Local Assembly for local tax varying powers.

4) We believe that this further work should specifically consider creative options to ensure that we manage the downside/costs of the proposal as effectively as possible.

Having recognised that there will be a cost to the Northern Ireland economy of the proposal and no “guarantee” of a benefit from the investment in our economy, it is essential that we facilitate a debate into creative approaches which would give the proposed change the best chance of success.

We need to evaluate how we can maximise the opportunity that this change would represent, while also managing the drawbacks to the best of our ability. This may be in areas such as the timing of the implementation of the change to the tax rate, or how we market the change internationally for example.

While the proposal does represent a great opportunity for our economy, it is vital that we think creatively to establish how we can best implement the change to our advantage whilst managing the risks that are inherent in such an investment.

Conclusion

In summary, Chartered Accountants Ulster Society is supportive of the proposal for a devolution of the power to vary (reduce) the Corporate Tax rate in Northern Ireland and calls for further research and debate as regards the merits and timing of such a reduction. Our members believe that the proposal is a central plank of the steps now required to rebalance the local economy and address the significant growth required in our private sector economy.

Whilst the debate on this issue has been ongoing for decades, such a change might well be within our grasp considering the political will that currently exists.

We would therefore support a call for the devolution of the power to reduce the rate of Corporation Tax in Northern Ireland to the NI Assembly. Once such devolution has been granted the implementation of this power will be best achieved after closely examining both the potential of the proposal and the realistic costs involved, as well as outlining creative ideas on the management of the policy.

Chartered Accountants Ulster Society is committed to playing its part in creating a sustainable and successful economy in Northern Ireland and we are willing to offer the expertise and experience of our membership in assisting with any aspect of economic development. We hope that these views will be welcomed as an honest and constructive contribution to the debate.

*Chartered Accountants Ulster Society
September 2010*