Economic Reform Group

12 Key Points on Corporation Tax Reduction

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1. There is ample evidence that a low rate of corporation tax is a key factor in determining where companies locate their investment. The Republic is a prime example of its potency as an economic policy tool.

2. There is no reason why slashing the corporation tax rate in Northern Ireland should not be equally beneficial. If, as the political parties wished, a 12½% rate had been conceded as part of the Devolution settlement in May 2007, Northern Ireland would now be enjoying the benefits.

3. Estimates of new job creation, skewed towards the higher end of the value chain, are of the order of 90,000 over 20 years. Such an injection would transform the nature of the private sector and greatly improve the opportunities for the output of the education system, who will otherwise leave Northern Ireland, depriving it of much of its best talent.

4. The clusters of pharmaceutical, medical devices, ICT, financial services and other companies in the Republic are proof that, far from creating bogus brassplate activity, the tax incentive promotes real job creation. These companies contribute hugely to the Republic's export performance of over €150 billion.

5. Since it increases significantly the after-tax return on their investment, a low corporation tax rate is particularly attractive to highly profitable companies generating R&D-driven, high value-added jobs.

6. Northern Ireland already scores high on many of the factors- infrastructure, higher education, skills etc – that make for an attractive host location. The addition of a low corporation tax rate (described in the Republic context by a PWC tax expert as 'the last big differentiator', conferring an advantage which the Republic 'would be extremely foolish to throw away') would attract the attention of companies that have not even considered Northern Ireland as a possible location because of its uncompetitive corporation tax rate.

7. An inflow of such companies, expecting and demanding a world-class business environment, would set the benchmark which Northern Ireland's continuing efforts to enhance that environment would have to match. As was the case in the Republic, demand and supply factors would be linked in a virtuous circle.

8. A strong FDI base results in its host location being plugged into world-class management expertise, global marketing knowledge, research capability, technology etc. Local economic performance overall is boosted and local firms get access to supply chain opportunities. FDI firms are an excellent seedbed for nurturing entrepreneurs who go on to set up their own businesses.

9. Arrangements could be put in place to counter any attempt by companies to exploit the existence of a differential tax rate within the U.K. However, to the extent that there were any costs arising for the UK, there would be offsets in the shape of the boost to revenues generated by a more buoyant Northern Ireland tax base and accruing to the UK Exchequer. Moreover, the UK generally would benefit from a significant reduction over time in the support needed by Northern Ireland because of the structural imbalance within its economy.

10. There is the possibility that Northern Ireland may be stripped of its powers to give investment grants to new and existing firms from 2013. These grants, under a scheme known locally as Selective Financial Assistance (or SFA), amount to around £100 million each year and have been the backbone of industrial policy in Northern Ireland for many years, creating over 2,000 additional jobs each year. The EU Commission increasingly prefers to restrict grants to the poorer EU members in Eastern Europe. As a result Northern Ireland's freedom to award grants is already severely restricted within Greater Belfast, and may be removed altogether for the whole of NI from 2013. The removal of these grants would leave NI as a slow growing economy with potentially rising unemployment. It is thus imperative that the Executive has an alternative economic strategy in place to guard against the possibility that SFA grants might be withdrawn.

11. The Azores judgement by the European Court set out the conditions under which a region could have a differential tax rate. With the power to levy corporation tax devolved, Northern Ireland could satisfy those conditions. There would be no limit on the type of investment to which the new corporation tax rate would apply. The Azores ruling specifies that it is the region enjoying the low tax rate, not the national entity, which must bear the consequences of the loss of revenue which will initially result from lowering the tax rate. This would be achieved by a corresponding reduction in the amount available for public expenditure in Northern Ireland.

12. If an immediate reduction of the corporation tax rate to 12.5% were deemed to be too costly, it would be within the discretion of the Northern Ireland Executive, having regard to the circumstances at the time and in light of its priorities, to decide from what date the reduced tax rate would apply and whether to phase it in over a period of time, thereby also phasing the impact on public expenditure. Phasing the reduction in corporation tax to 12.5% over say a 4 or 5 year period would significantly reduce the initial cost whilst still encouraging FDI to come to Northern Ireland for the longer term.

Note:

These points are fully developed in more detail in the accompanying report 'The Case for Reduced Corporation Tax - A Supporting Update, February 2011' by the Northern Ireland Economic Reform Group.