Launch of Major New Report Advocating Reduced Corporation Tax for Northern Ireland

EMBARGOED until 12.00pm Tuesday 16th February 2010

"Reduced Corporation tax is the fastest way we know to revitalise the NI economy. We estimate that more than 90,000 extra jobs could be created over 20 years and that the subvention could be cut at a relatively small cost to public expenditure"

Today the Northern Ireland Economic Reform Group of senior economists, accountants and business interests launches a major report on reduced corporation tax for Northern Ireland. The report argues that a low rate of corporation tax is the only change which will quickly turn the Northern Ireland economy around and that without this reform the Northern Ireland economy faces a difficult future with continued dependence on a huge subvention from GB, low levels of employment and low wages.

Twelve years after the Good Friday Agreement Northern Ireland remains the UK's poorest region. It has the lowest average wages and among the lowest productivity. Despite having proportionately the smallest private sector, it has suffered the largest percentage loss of jobs of any region during the current recession. Its unemployment rate has risen to the third highest of any region, and a higher percentage of is working-age population are inactive than in any other region. Around half of all government expenditure in NI is financed by tax-payers in GB, and in reality tax-payers in South East England. The subsidy to NI is worth in the order of £9 billion every year. This means £5,000 for every person living in NI, or £20,000 a year for a couple with two children.

The authors point out that all of this has happened despite the highest levels of government support for business in any UK region. Most large businesses in manufacturing and agriculture, and many service businesses with export potential, receive generous grants or subsidies. It is clear that this regime of economic development policy will not turn around the Northern Ireland economy, alter the balance between the public and private sectors or significantly narrow the prosperity gap with the rest of the UK. As if this were not bad enough, the situation may well get worse. The EU plans to begin reducing from next year the ceilings for the maximum amount of grant that Invest NI is allowed to give private firms. If these plans are realised, it is possible that no, investment grants may be permitted at all after 2013

The evidence presented in this report shows that the fast track solution to increasing economic prosperity and rapid job growth it to attract high value added Foreign Direct Investment (FDI) and that one of the key ways of doing this is to offer a low rate of corporation tax. The experience of the Irish Republic shows the ability of a highly competitive corporation tax regime to attract Foreign Direct Investment. It would greatly enhance Northern Ireland's promotional message at any future Investment Conference if it were able to look forward to having one of the lowest corporation tax rates in the world. A low tax regime would also of course act as a spur to investment by indigenous companies

The Report argues that reduced corporation tax is the only change which will quickly turn the Northern Ireland economy around. Other changes are also needed, such as those described in the recent Independent Review of Economic Policy, but this is the only reform that can induce the major structural change which is needed if Northern Ireland is to get out of the present economic rut. A reduction in corporation tax to a level comparable to that in the Republic of Ireland would raise overall tax revenues in NI. The benefits would be widely spread:

- **NI would benefit from a much larger private sector, including at least 90,000 extra jobs over 20 years. Many of these jobs would have salary levels well above the average for NI. Unemployment should fall back much further than would otherwise be the case.**

- The UK Treasury would gain from additional tax revenues from income taxes, national insurance, VAT etc. The subvention from London needed to support public expenditure levels in N.I. would be reduced accordingly, by over £1 billion within 20 years.

EU rules insist that any region gaining control over its own tax must bear the costs of any reduction in tax rates. In this report we have calculated that the reduction in revenue from reduced corporation tax is around 2% of Executive spending, but this could be smaller if the tax base expands as fast as it has in some other countries following a tax reduction.

The Report is a comprehensive response to the Treasury's Varney Review in December 2007 which rejected the request from all of the main Assembly Parties for reduced corporation tax in Northern Ireland. The Report builds on the Varney Report's admission that reduced tax would be legal under the Azore's and Gibraltar Judgements of the European Court. Northern Ireland would, of course, in line with that judgement, have to shoulder the cost to the Treasury of any reduction in the yield from corporation tax resulting from the cut in the tax rate. This would be a small price to pay in exchange for the ability to deploy such a powerful new policy weapon

Other issues previously raised concerning a reduced rate of corporation tax include the concern that brass plating will occur in that shell companies will set up in Northern Ireland without any real activity or will shift excessive profits into Northern Ireland operations, with the sole purpose of claiming the benefit of the low corporation tax rate. This report addresses these concerns and indicates that HMRC already have most of the tools necessary to police inappropriate behaviour. The report does however suggest that a 'headcount' test could be introduced as a means of ensuring that companies availing of the low tax rate are genuinely located in Northern Ireland.

For further information contact: Eamonn Donaghy 07879693839

Note For Editors

The Northern Ireland Economic Reform Group consists of senior economist and accountants together with Sir George Quigley, Chairman of Bombardier-Shorts. The group shares a common view that Northern Ireland has a pressing need for economic reform and that reduced corporation tax is the only effective means of meeting that need quickly. All members of the group have long experience in arguing for this reform including advising the Assembly in their previous attempt to persuade the Chancellor of the Exchequer to make this change.

Members of the group are:

Eamonn Donaghy	KPMG
Neil Gibson	Oxford Economics Ltd
Dr. Graham Gudgin	Centre for Business Research, University of Cambridge
Michael Hall	Ernst and Young
Dr Victor Hewitt	Director ERINI.
Sir George Quigley	Chairman, Bombardier-Shorts
Michael Smyth	University of Ulster

The full report can be obtained on the Group's website at:

www.ergni.org

For further details on the report contact:

Neil Gibson:	07803728994
Eamonn Donaghy	07879693839