

Options for fiscal devolution in Northern Ireland

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Chair, Fiscal Commission NI

NERI 9th Annual Dónal Nevin Lecture
29 September 2021

Terms of Reference

“Review the case for increasing the fiscal powers to the NI Assembly, advising the Finance Minister on powers which could enhance the Assembly’s fiscal responsibilities ...”

Established

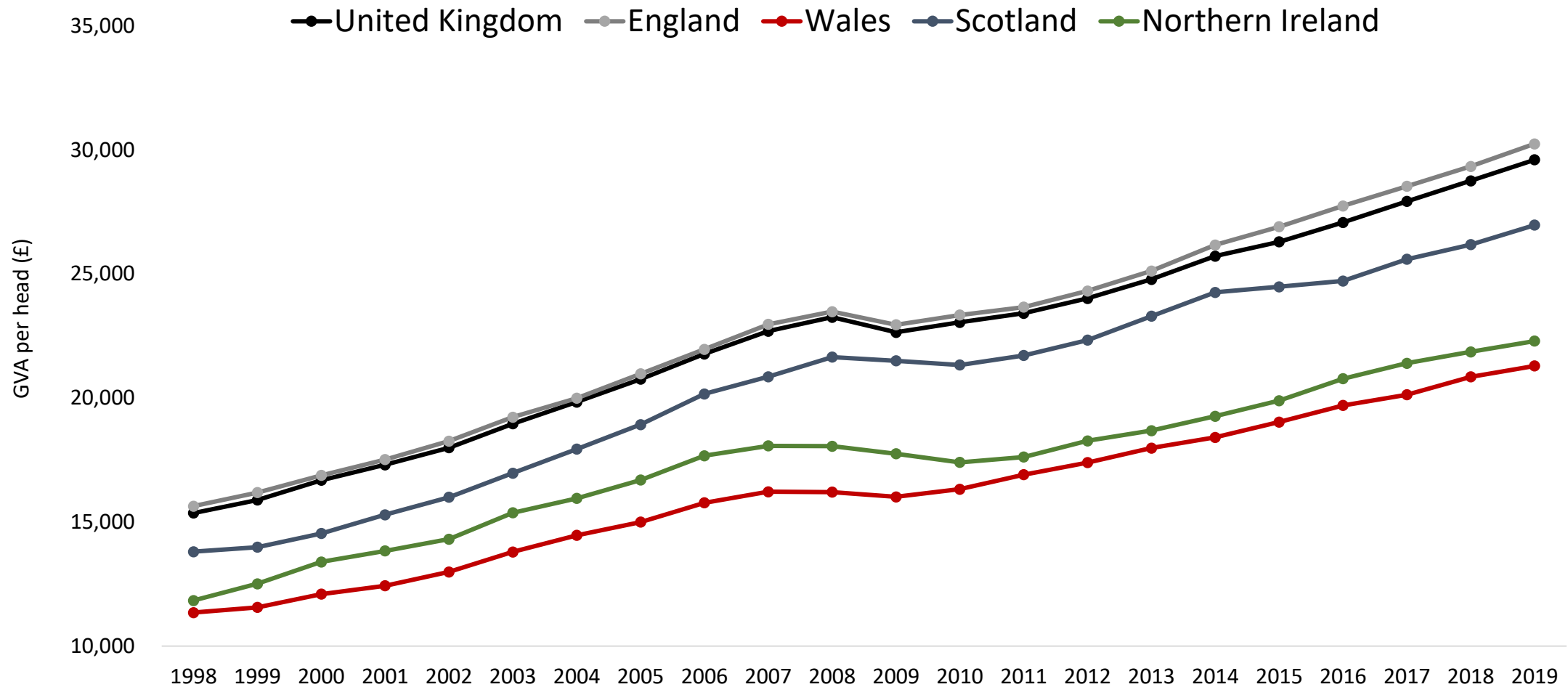
- By NI Finance Minister, Conor Murphy MLA, March 2021, Ministerial Statement
- Report to Finance Minister ahead of new political mandate (elections, May 2022)

Commissioners

- **Paul Johnson**, Chair, Director, Institute for Fiscal Studies
- **Prof. Cathy Gormley-Heenan**, former deputy V/Chancellor Ulster University;
- **Prof Iain McLean**, Emeritus Professor of Politics at Oxford University; and
- **Dr. Lisa Wilson**, Senior Economist at the Nevin Economic Research Institute.

NI has persistently been much poorer than rest of UK...

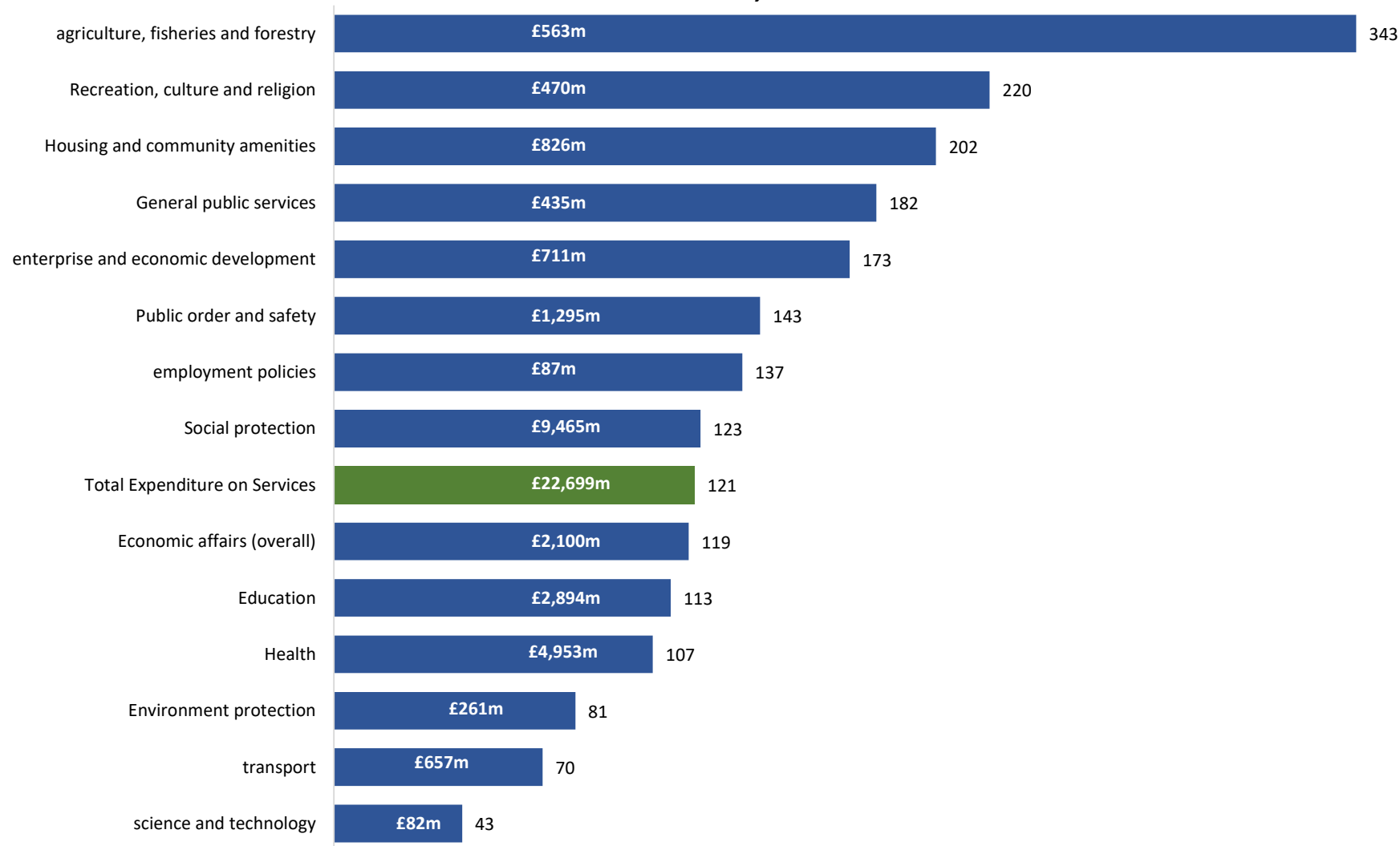
Regional GVA per head, 1998-2019



- **NI Executive controls majority of ‘identifiable’ public spending** on services in NI – almost £9 in every £10 spent (including Social Security)
- **Social Security devolved in legislation**, but spending linked, so powers **limited in practice**
- **Nearly 90% of Executive DEL Budget** (excludes Social Security) **comes from Block Grant.**
- **Main NI Executive tax resource comes from Rates** (domestic and business) - 9% of total ‘tax take’ (shared with District Councils)

And much higher levels of spend than rUK...

NI Identifiable expenditure on services by function, £ and per head indexed, UK = 100



Source: NISRA, HMT Country and Regional Analysis 2020

And much lower levels of tax generation...

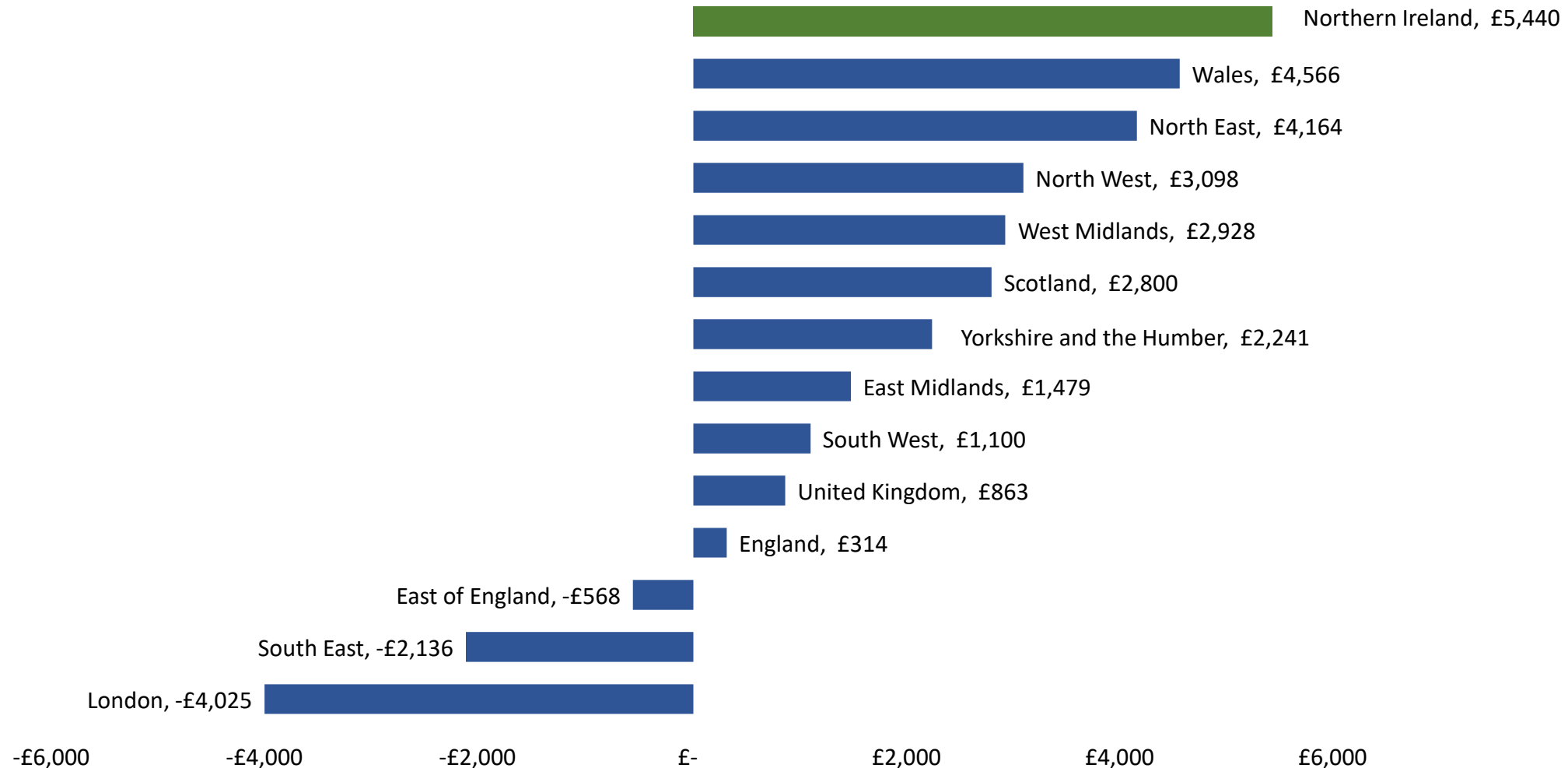
UK countries, composition of revenue per head (£), 2019/20, geographic basis



Source: ONS Country and Regional Public Sector Finances, FYE 2020: Revenue Tables.

Leading to a much bigger fiscal deficit per person...

Net Fiscal Deficit per head UK regions 2019/20, geographical basis



And some significantly more generous taxes and charges

- Complex issues with each of these. However, there are a number of specific examples of **policy divergence** where NI could raise additional revenue or reduce expenditure if policies matched other parts of the UK.
- Examples include:
 - **Domestic Water Charges**
 - **Welfare Mitigations**
 - **Rates (domestic and non-domestic)**
 - **University Fees**
 - **Prescription Charges**
 - **Housing Benefit Top Up**
 - **Concessionary Travel**
- Total impact in NI **over £600m** per annum (2021 estimates)
- **A UK equivalent would be over £21 billion per annum**

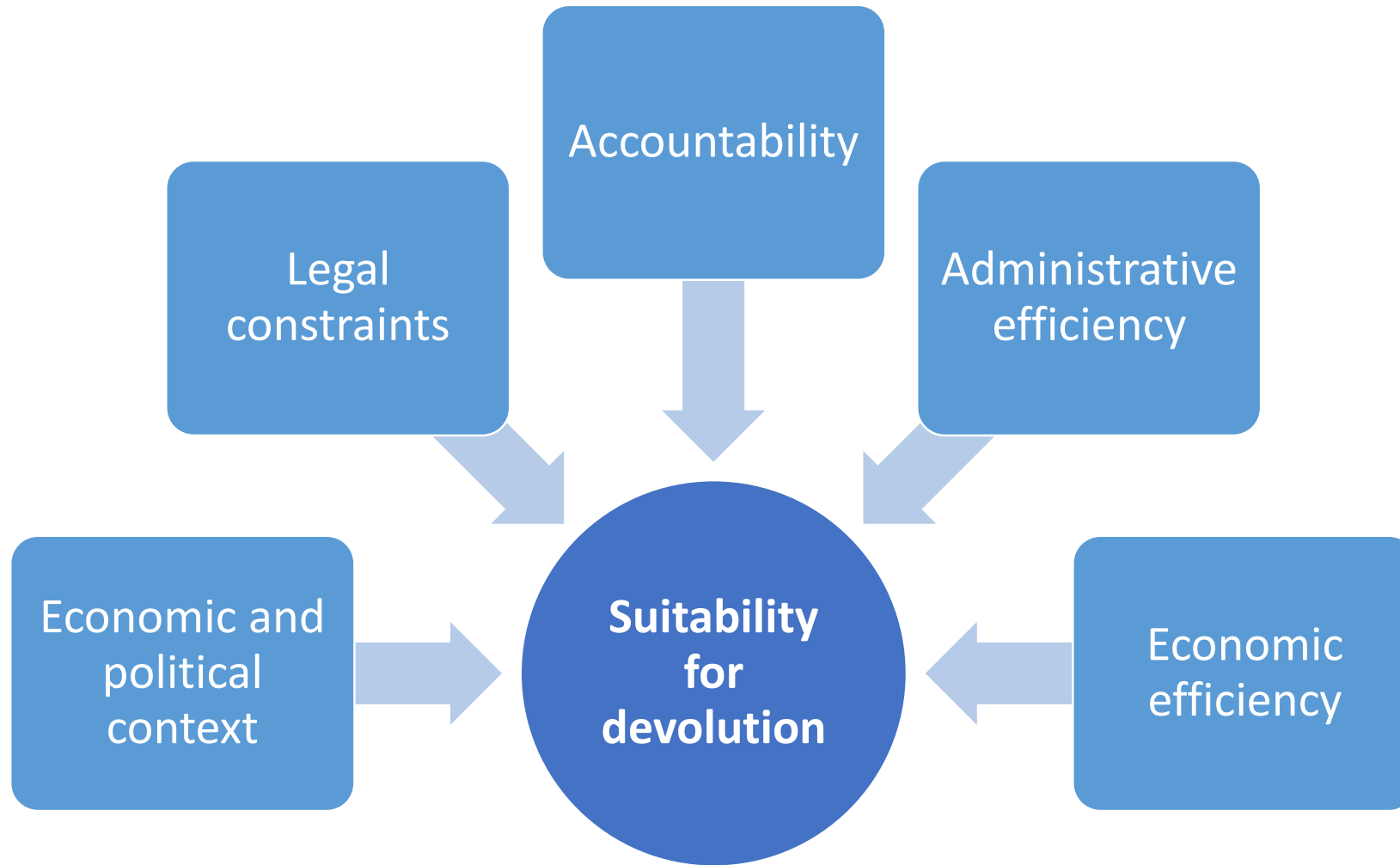
Scotland and Wales have been on a longer journey to fiscal devolution

- **Two commissions in each case (One Technical / One Political)**
- **Scotland has had some tax varying powers since devolution in 1999 and now has powers over:**
 - Scottish Income Tax (partially devolved) rates and bands (non-savings and non-dividend)
 - Scottish Land and Buildings Transaction Tax
 - Scottish Landfill Tax
 - Council Tax and Non-Domestic Rates
- **Wales has powers over:**
 - Land Transaction Tax
 - Landfills Disposals Tax
 - Income Tax – Partial
 - Council Tax & Non-Domestic Rates

- **Assignment of taxes**
 - Assembly's revenues depend on what happens to tax revenue in NI
 - Benefit when economy does well, suffer when does less well than rUK, little NI control
- **Devolution of powers over structures and rates of some taxes**
 - In each case adjustment of block grant is crucial
- **Full fiscal devolution**

- **Tax devolution implies a deduction to the block grant to reflect revenues foregone by UKG. Two parts:**
 - Initial deduction (revenues raised from devolved tax in NI in year prior to devolution)
 - Indexation: a measure of the growth in revenues of 'comparable tax' in rUK
- **There are different ways that such a deduction can be estimated**
 - Different approaches influence the risks and rewards that the NI budget is exposed to
 - Also the extent to which tax devolution is perceived as fair by taxpayers in NI and rUK.
- **These issues can be quite contentious** - as seen previously in Scotland
- **Our final report will look at these issues in detail**

Commission's criteria for assessing taxes



Fiscal Devolution Mix?

- Some taxes better **suited to supporting devolved responsibilities** – e.g. alcohol/tobacco duties and link to public health (devolved).
- Other taxes less of a link to devolved responsibilities but **important in terms of revenue**, e.g. Income Tax; VAT; NICS.



Risks?

Long Haul APD in NI

- Devolved and zero rated
- To maintain direct flight to North America
- However airlines ended service
- Ongoing fiscal cost – c£2.3m per annum and no direct flights to North America

Scottish Income Tax

- Local policy for local needs
- 'More progressive' system
- Revenue generating for public services
- But revenues (£119m) lower than predicted (£428m)



Reward?

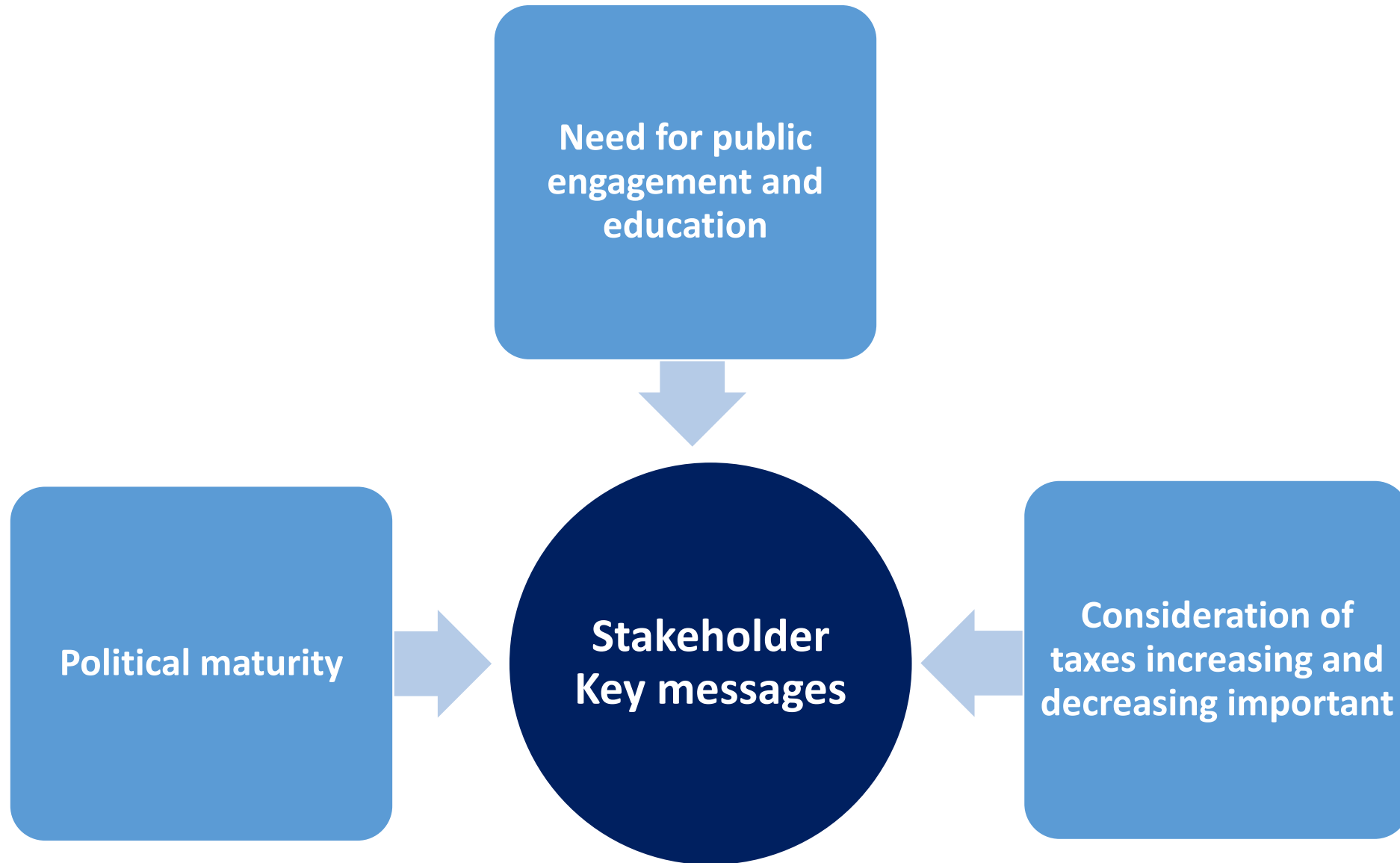
NI issues are different from Scotland and Wales...

- **Northern Ireland's:**
 - **Geographical position**, land border with separate tax jurisdiction (EU / RoI)
 - **Brexit context** means issues are different to those facing Scotland and Wales.
- **Particular issues:**
 - Cross border shopping an issue in terms of NI/RoI border, less so NI/GB
 - Brexit means potentially more capacity to devolve some taxes - but perhaps limited by NI Protocol?
 - Very low corporation tax rate in RoI

- **Tax Powers utilized** – differentiate from UKG policies (Income Tax; Land Transaction Tax)
- **Caution needed over estimates of tax revenues** – Scottish Income Tax; VAT revenues
- **Devolution not always straight forward** – VAT assignment; APD; Aggregates Levy
- **Budget Impacts** – increased importance on UK Budget timing; increased budget volatility
- **New revenue authorities** - established and collecting devolved taxes

- **Significant issues over tax data reliability at a regional level across the UK**
 - Quality over estimates vary by tax
 - Mix of administrative data and survey data
 - **Example** – VAT estimates – NI's largest tax - £4.2 billion (with refunds). Based on Living Costs and Food survey but sample size in NI of circa 150 households!!
 - Scottish issues with data reliability on VAT and Income Tax – lessons for NI
 - Improving data now key to help devolution in future

Input from stakeholder engagement already valuable



Commission focus on specific taxes... Excise duties?

Excise Duties in NI

- *Alcohol and tobacco duties; and fuel duties* together worth £1,638 million in 2019-20, or 8.3% of total revenue in NI. (Diesel duties less in RoI; Spirits and tobacco duties less in UK)

Previous Commissions

- Land border with England meant devolution ruled out for Scotland and Wales due to concerns over cross border shopping. NI is different.

NI Protocol

- Requires goods going GB to NI to be treated similarly to international imports by NI for purposes of excise duties. But not vice versa.

Commission focus on specific taxes... Corporation Tax?

Corporation Tax in NI

- Been at the heart of previous debates about tax devolution in NI
- Raised £810 million in 2019-20, a relatively large revenue raiser
- Corporation Tax (Northern Ireland) Act 2015 – main rate only – not commenced.

Wider Context

- Ruled out by Calman/Smith for Scotland
- Holtham considered that there could be a case for restricted UK devolution
- Devolution not a priority for Scottish or Welsh Governments
- Not a current priority for NI Finance Minister
- Benefits of RoI 12.5% Corporation tax, but competing views
- UK raising rate to 25% by April 2023
- US tax regime changes and G7 agreement for minimum tax rate of 15%

...Corporation Tax? Part two...

Potential benefits

- Increase financial accountability and as useful economic policy development tool
- Potential for significant positive impacts on overall employment, GVA and productivity

Issues with devolution

- Ability to shift economic activity and profits mean economic distortions on overall UK tax base are possible
- UKG / NIE protracted discussions on direct costs / behavioral costs unresolved
- National and Global context has changed considerably

Different Devolution Models

- 2015 model – ‘separate accounting’; trading profits only; activities excluded (e.g. financial); SME regime; back office
- Fuller devolution – wider definition of profits; powers over tax base
- Formula apportionment – based on payroll/assets/sales; used in US States; Canada; Italy; Germany

Much work to date... a lot more to do

March 2021

Commission began
work

By end 2021

Commission to publish
Interim Report

Spring 2022

Commission to publish
Final Report

- 1. Should more tax powers be devolved to Northern Ireland to bring it into line with Wales and Scotland?**
- 2. If more tax powers are to be devolved, which should they be? Should they have a priority? Which taxes?**
- 3. What are the benefits and risks to additional devolution?**
- 4. How does Brexit and the protocol affect options?**

Call for Evidence open & Submissions strongly encouraged!

Can be submitted at [**fiscalcommissionni.org**](https://fiscalcommissionni.org)