

## Tories are foolish to line up Northern Ireland as a tax...

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From [Comment is Free](#) — by me — today:

*The new Conservative Northern Ireland secretary, Owen Paterson, has announced that he intends to turn Northern Ireland into a tax haven.*

*I agree, he did not put it quite like that. As the [Guardian noted on Saturday](#), what he has said is that an inquiry should be established to decide whether the rate of corporation tax in the province should be set at 12.5% — the same as that in the Republic of Ireland. That would though, however described, be an inquiry in all but name into setting up Northern Ireland as a tax haven. After all, tax havens deliberately offer low tax rates to artificially induce transactions to their shores, and this is exactly what this inquiry would be about.*

Seen in this way it is a staggering reverse of policy on this issue from that adopted by the Labour government — and that also espoused by Vince Cable, perhaps more so than any other MP in the last House of Commons.

At the G20 in London in April 2009 [Gordon Brown correctly identified tax havens](#) as one of the major problems in the world economy, and began a steadfast attack on them — including those in the UK crown dependencies and overseas territories.

Vince Cable's close Lib Dem colleague Lord Oakeshott went further. When talking of the low tax rates offered in the Republic he called Dublin "[Liechtenstein on the Liffey](#)", adding: "[If you set out to attract mobile money from around the world, you run much bigger risks when things go wrong.](#)"

Matthew Oakeshott was right in his description of Dublin and right in his analysis. And yet the first new policy initiative for Northern Ireland that the Tories have set in train for Northern Ireland is to copy the disastrous tax regime of the Republic.

For Northern Ireland the problem will be that of all tax havens: fly-by-night companies that have no intention of creating real jobs, and whose sole aim is to park profits in the province before moving them on to another tax haven as quickly as possible will be

those attracted by this policy.

In addition we'll see plenty of notional head offices set up, as abound in Dublin docks, many of them with no employees at all.

On top of that there will be plenty of artificial transactions relocated to the province, such as the repackaging of goods with minimal labour content added undertaken, all for the sake of shifting profit into Northern Ireland.

But this artificiality will not be the end of the problem. Copying the culture and failed policies of the Republic will be the biggest disaster for Northern Ireland. As the Republic has now resoundingly proven, building an economy on the basis of corporate tax rate competition does not work. That policy has virtually bankrupted the Republic. Why on earth would anyone want to replicate it?

And why would they want to do so when under EU rules cut-rate tax deals are allowed only on condition that the public subsidy for services in the region offering them has to be reduced to match the loss in tax revenue, pound for pound. That would create a double whammy for Northern Ireland because there's no evidence that reduced tax rates would result in a penny more tax being paid. The resulting impact on lost revenue for Northern Ireland could be catastrophic for its public services.

There may also be a significant loss of tax revenue in the rest of the UK as a result of the change for a number of reasons.

First, tax-avoiding businesses are risky businesses, imposing a cost on all the rest of us when they fail — as surely some will. Just remember [DeLorean Cars](#) — another new Tory administration debacle of a generation past in Northern Ireland.

Second, corporation tax admin burdens in the UK will sky rocket. Every single transaction between the UK and Northern Ireland will have to be subject to transfer pricing rules to make sure profit is not being shifted into Northern Ireland. The extra accounting costs will be astronomical.

And lastly, despite the very best efforts of HM Revenue & Customs, business will shift profit out of the rest of the UK and into Northern Ireland and pay less tax overall as a result. There is just one inevitable consequence of this folly and that is that the ordinary people of the UK will pick up the bill for this when every pound of revenue is critical in the fight to close the UK budget deficit.

Add this catalogue of problems together and it is astonishing that the major political parties in Northern Ireland have proposed this policy, but propose it they have. And now the Tories are listening — in the process sending out a message to the world at large that they think tax havens are good for society.

It's hard to imagine a worse start to Tory policy on tax or Northern Ireland.

