

Funding the Future

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The [Economic Advisory Group in Northern Ireland](#) (a quango) has strongly endorsed the demand for a cut in the corporation tax in Northern Ireland to 12.5% to match that in the Republic of Ireland in a report issued today.

I have had a [quick look at this report](#), it is very obvious that the economic logic that underpins it is completely bizarre.

Putting aside for a moment the obvious legal and constitutional problems that exist in having a separate tax rate in Northern Ireland if it is to be agreed to be legal by the European Union, and also putting aside the fact, which this group ignores, that the subsidy may not apply to any financial services company and nor may it apply to any company supplying intra-group services (and these are by far the most likely to be attracted by low tax rates) what is not disputed by anyone is that if such a rate is introduced then Northern Ireland must suffer a cut in its block grant from Westminster to exactly match the anticipated corporation tax revenue lost as a result of the reduction. This cut in the block grant would take place from day one on which the corporation tax cut took place. Of course, any potential benefit arising from the new jobs it is claimed it would create would take many years to recoup.

But, as the report makes clear if you read it carefully and do a little analysis, is that there is no realistic prospect whatsoever of that sum being recouped. The report estimates that the lost block grant will be £272 million. How they come to guesstimate that is hard to know because HM Treasury and HM Revenue & Customs have said that they have no idea how much corporation tax is paid in Northern Ireland, but let's assume they are right for a minute. This means that the people of Northern Ireland will have to see an immediate cuts in services when this corporation tax cut is introduced worth at least £272 million a year. They can only have those services back when sufficient additional taxes, a little bit being corporation tax but by far the majority being PAYE and National Insurance, are paid as a consequence of the new jobs created as a result of the introduction of this policy.

Let's also assume that the EAG are right for a moment in predicting that 4,500 jobs will be created each year as a result of this cut in corporation tax even though research that I've undertaken, to be published shortly, shows that I can find no real link between

employment rates and corporation tax rates across equivalent OECD states. But assuming they're right nonetheless, that means that the cost of each job, assuming the 4,500 were created in the first year, would be over £61,000 each.

Now, average pay in Northern Ireland is about £22,000, at best, at present. It would be generous to assume that such a job contributes more than about £8,000 a year in total tax yield, even allowing for tax paid on profit by the employer. That means that in the first year of this policy, assuming it is completely effective the moment it is introduced, the loss per job created will be net £53,000. In the second year, assuming none of the jobs created in the first year did, of course, cease to exist then the cost per job would go down; they would only cost £45,000, because those from the first year would, by then, of course still be paying. So, again assuming that every job is retained, and that the program is instantly successful, after nearly 8 years the program might break even with regard to one particular year. But, to actually break even in terms of covering losses in the first seven years would require a program to last 15 years. And that ignores any cost of finance.

Being very polite, this makes absolutely no sense at all.

Worse than that, what this program means is that for the next 15 years the people of Northern Ireland will be net out of pocket whilst the business owners in Northern Ireland reap the reward, with absolutely no guarantee whatsoever that they will reinvest that reward in the creation of new jobs in Northern Ireland. There will be no obligation that they do so. As a consequence this is a hopeless use of public funding, the worse for the fact that it is a hopeless use of public funding which will have direct impact upon the most vulnerable people in Northern Ireland.

Of course Northern Ireland has an economic problem. I don't deny it. But cutting taxes will not solve it for all these reasons, and many more besides, not least being the fact that cutting the headline rate will not actually make Northern Ireland attractive when compared to the Republic, which also has a much more generous tax base. The policy will, on that basis, fail in any case to deliver almost any new jobs.

There is good reason why investment should be made in the Northern Ireland economy, but that investment has to be by direct grant into new job creation programmes, particularly focused, I suggest, on the Green new Deal. That means an investment in new manufacturing, perhaps most especially focused upon tidal power which exploits the traditional skills of the engineering sector in Northern Ireland, to build real wealth, and not wealth in the pockets and bank accounts of those who own business in Northern Ireland.

In summary: it really is time that the politicians of Northern Ireland, and the politicians of Scotland to, open their eyes and realise that these proposals (because Scotland is suffering a similar suggestion from the SNP) are simply another exercise by a very small group in society seeking to capture tax revenues for their own private benefit

when they are the least deserving of them.