

MPs suggest cutting Northern Ireland's corporate tax ra...

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The House of Commons Northern Ireland has just announced that:

There is a convincing case for reducing the corporation tax rate in Northern Ireland, not least so it can better compete with the Republic of Ireland, concludes the Northern Ireland Affairs Committee in a report published today.

The Committee supports the principle of devolving to the Northern Ireland Executive the decision over whether or not to amend the rate of corporation tax, and believes this would assist the indigenous private sector to expand, innovate and employ more staff.

The Committee's report uses 12.5% as a benchmark for the lower rate of corporation tax, but suggests that on the basis that the decision is devolved to the Northern Ireland executive it may, in due course, choose a lower rate.

I am especially annoyed that they say:

The evidence we received from businesses, trade unions, economists and politicians formed a convincing argument for a lower rate for Northern Ireland, which could help to unlock the potential of its private sector by boosting growth, innovation and exports.

Not telling the truth in your press release does not help your case: I wrote the trade union submission on this: it was vehemently opposed to this change, for very good reasons. The report I wrote for the TUC and Irish Congress of Trade Unions, entitled "[Pot of Gold or Fool's Gold](#)" sets out my arguments in full. We were by no means the only opponents to this reform. That I know of no union supported it, so the press release is blatantly wrong.

But the Committee's naivete suggests all the reasons why this reform will never happen. They say in their press release (no link as yet):

Low corporation tax is not a panacea for all Northern Ireland's economic ills, warns the Committee.

They clearly listend to some of the evidence then. They continued:

[T]here are considerable implementation issues: direct comparisons with the Republic of Ireland and its experience with 12.5% are difficult because the UK and Irish tax systems are different.

They're not just different, they might as well be from different from planets. Even after the UK has a territorial tax system (to be applied, I wonder to Northern Ireland alone in the case of an NI tax rate meaning dual tax rates for UK resident companies?) there are other problems, like Ireland's lax enquiries regime, it's disregard for transfer pricing issues, and lax approach to royalties and such matters. Northern Ireland cannot replicate these so it cannot beat the Republic on tax. Nor should it want to. So this policy will always fail.

Then there's the need for:

the UK Government .. to satisfy the criteria laid down in the Azores judgment for the tax reduction to satisfy EU rules on state aids.

Constitutionally that looks nigh on impossible. Westminster specifically can't decide on this issue and if it does then it will be illegal under EU law. And yet this report is clear indication that Westminster wants to decide on the issue - a faux pas if ever I saw one.

Moving on:

This means the decision to vary the rate must be devolved to Northern Ireland, the receipts for corporation tax raised in Northern Ireland would be kept in Northern Ireland, but at the same time the block grant would be reduced by the same amount as the initial corporation tax receipts.

The Committee were surprised to discover HM Treasury do not know how much corporation tax is raised in Northern Ireland. It is important that the Northern Ireland Executive has as much information as possible before deciding if, and how, it wishes to lower the rate, and at least a better idea of the amount of financial risk they are taking on. Furthermore, the benefits of lowering corporation tax must not be outweighed by the costs to businesses and HMRC, an issue also identified by previous Commissions into devolving corporation tax to Scotland and Wales.

So, the block grant has to be reduced but no one has idea by how much. That's not going to work, is it? And even if tried the EU could challenge it - creating massive uncertainty.

And as the Chartered Institute of Tax have said - the additional costs to business of doing this will be massive - which is why they do not want it. All goods and services flowing to

Northern Ireland under common ownership will be subject to transfer pricing rules. And the anti-avoidance rules will be massive.

Then there's the fact that under EU law this lower tax rate could not apply to finance companies or to companies supplying intra-group activities such as call centres, or group distribution, or the like. And it then becomes clear almost no new business could benefit.

So who would benefit? Well the accountants and lawyers will. And the Taxpayers' Alliance must be laughing themselves silly this morning that they have conned these MPs. Will anyone else win? Not a chance. This is a nightmare of a policy and the MPs who have promoted it are foolish to do so.