Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Devolution of Corporation Tax Powers: Department of Finance and Personnel

10 December 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Ms Michaela Boyle
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr Adrian McQuillan
Mr Máirtín Ó Muilleoir

Witnesses:

Mr William Dickson	Department of Finance and Personnel
Mr Tony Simpson	Department of Finance and Personnel

The Chairperson (Mr McKay): I welcome Mr Tony Simpson and Mr William Dickson from the strategic policy division in DFP. Tony, do you want to kick off with an update on where things are?

Mr Tony Simpson (Department of Finance and Personnel): Yes, Chair. I will not say too much by way of opening remarks, because the Committee is obviously well aware of the background to this. Clearly, things have moved on since our update note to you of 1 December. As you will all know, in his autumn statement last Wednesday, the Chancellor announced that corporation tax powers could be devolved, subject to the Executive showing:

> *"that they are able to manage the financial implications."*

While there are clearly conditions, it is very positive that the Government have recognised that we have a case for the devolution of corporation tax powers. As you know, over the course of the past year we have been working with colleagues in OFMDFM and DETI and engaging with the Treasury to develop the regime that would be implemented if a positive decision was reached. Essentially, the objective is to strike a balance between getting a regime that is attractive to business and will encourage genuine additional economic activity while ensuring that the costs are proportionate. The detail of that regime has been reflected in the draft Bill that has been developed by colleagues in Treasury and HM Revenue and Customs (HMRC). We have yet to see the actual draft of the Bill. They were working to a timescale so that it would be ready for the autumn statement. So, we have asked to see it but have yet to do so.

The autumn statement confirmed that the draft legislation will be introduced in Parliament, subject to satisfactory progress being made in the current cross-party talks. Subject to the Government agreeing to offer us the powers and the Executive making the decision to accept those, we expect to see that

draft Bill pass through the House of Commons and the Lords in order to receive Royal Assent before the end of the Parliament at the end of March.

We will seek the consent of the Assembly for Westminster to legislate on this. We will do that via a legislative consent motion (LCM), so we will be back to see you, hopefully, on that. In terms of next stages in implementation, the Treasury and HMRC indicate that, if there is a positive decision, it would take up to two years to put the necessary implementation arrangements, such as IT and administrative procedures, in place, so the earliest we could perhaps have a devolved rate applied would be 2017. It is for the Executive to decide that, clearly. The next stage would be for the Executive to decide on a rate, how it would be introduced and how it would be reduced or phased, and so on. That would need to be made in light of the broader public expenditure position and how the benefits would be expected to flow. We will probably talk about that during this session.

That is essentially where we are. Rather than take too much time going into the detail now, I am happy to take questions, Chair.

The Chairperson (Mr McKay): Obviously, the cost of varying the corporation tax rate has been debated to some degree. If the Executive get the powers to vary the rate and that has a knock-on economic effect in terms of additional income tax and fewer welfare payments, that would be an economic benefit to the central purse at Westminster. How would that come back to us again? Would it come back to us? Has that question been raised with the Treasury? Obviously, there would be economic benefits that we may not get.

Mr Simpson: The short answer is that, yes, we have been raising that with them in the discussions on how the block adjustment would be applied. We do not have agreement with the Treasury on that yet. The focus to date has been on nailing down what the initial direct and indirect costs would be. There are provided estimates on that, and we have advised Ministers on that, but there is no agreement from Treasury on if and how those wider benefits would be reflected in the block adjustment. That is something on which we need to continue to engage with them over the coming months.

The Chairperson (Mr McKay): Have there been many positive signs from them?

Mr Simpson: In terms of that?

The Chairperson (Mr McKay): Yes.

Mr Simpson: I would not want to describe the signs as either positive or negative. The view from Treasury is that the benefits are quite difficult to estimate or to identify precisely what they are. That is a discussion that we have had with them: we think that there are ways that, perhaps, their estimates could be developed and reflected in the block-grant adjustment. They have not said yes or no. It is something for further discussion.

The Chairperson (Mr McKay): If we were to get devolution of corporation tax powers in 2017, obviously, it will be some time before it beds down. How does the Department propose to deal with the peaks and troughs? Some projections state that it could be six, seven or eight years before we see a net benefit from devolution of corporation tax.

Mr Simpson: Again, that is another issue that we still need to bottom out with Treasury. There is an assumption — or rather, an agreement or acceptance — that we will have to have some mechanism to manage that volatility, whether through short-term borrowing powers or some transitional arrangements that would be put in as the rate beds down. However, there is recognition from Treasury that something needs to be put in place to enable us to manage that volatility.

The Chairperson (Mr McKay): Finally, has the Treasury sent you a definition of "satisfactory progress"?

Mr Simpson: No. As officials, we have asked for it. The previous Finance Minister asked for that in the Chamber, following the autumn statement. We have yet to see what will be deemed to be "satisfactory progress".

Mr Girvan: I want to ask about getting the exact tax lifted as coming from Northern Ireland. The Chair has already addressed the point that revenue will probably be generated through this process, albeit it

might take a few years for that to kick in. We have had such varying figures. Are we just going to have to accept whatever the Treasury says to us, or is there some more scientific method of extrapolating the exact cost? We have only 1·8 million people in Northern Ireland; it is very simple to work out how many of those are working and what tax draw is given. A very quick survey will tell you how much tax has been drawn from each individual who is employed and then from the companies associated with that. However, we have companies which are not even based here but which create employment here. Where is their corporation tax drawn? It will not be based in Northern Ireland. Say, for argument's sake, there is a company which has its head office in Manchester but employs quite a number of people in Northern Ireland; there will be no net benefit to us as a region, but the Treasury would still be getting revenue from the tax draw here.

Instead of smoke and mirrors, how do we know exactly what we are seeing? To be honest, there is such variance in the figures that the Treasury can pluck any figure out of the sky and say that that is what we owe. We have no way of saying whether that is correct. It is the same for the unions, which were trying to find out information in relation to pensions from actuaries and it was like pulling teeth. Really, we are no further forward. How can we be sure that what we are losing or gaining is going to be ours?

Mr Simpson: Certainly, in the process that took us to where we are now, we have been working with HMRC, and, as best we can, we have been interrogating the figures and challenging its assumptions. The tax take at the moment is based on analysis of the administrative data. It takes into account where we have operations of GB-headquartered firms that have branches in Northern Ireland, and there are mechanisms in place to track and estimate how much tax is attributable to their operations in Northern Ireland. Equally, there are Northern Ireland firms that have operations in GB. There are mechanisms in place, and what we are looking to see, as we develop an administrative scheme with HMRC, is that the data is available so that we can see precisely what companies in what region are generating what tax and what is attributable to the Northern Ireland regime.

The Chairperson (Mr McKay): I have a quick follow-on question from that. You mentioned the Azores case in your paper. You state that:

> *"Particularly important, is the Fiscal Autonomy criterion that the full fiscal consequences of a reduced rate should be borne by the region".*

That refers not only to a fiscal cost but also fiscal benefits. If there are consequences through income tax or other revenues, then surely, if the Treasury tries to cheat us — and I will use that word — out of moneys that we are entitled to from the system, could that be subject to challenge in Europe?

Mr Simpson: We have made the point to officials that we think that it should apply to both costs and benefits. It is also a point that has been made at ministerial level. The Minister made that point in correspondence with the Treasury prior to the autumn statement to emphasise that we believe that, if we are bearing the cost, we should also share the benefits. There is a process that we need to go through with the Commission to ensure that it is satisfied with the regime as defined, that it is Azores compliant and that there is no state aid in the regime. That is something that will be looked at, and we will press hard to ensure that the costs, as we see them, are appropriate.

Mr Cree: You mentioned the ongoing discussions or negotiations — I know that there is a difference now in what those mean — with the Treasury on this principle, but is it the detail that you are arguing? Has it agreed the principle that, if we have a reduced rate of corporation tax, that will produce employment and growth in the economy and it will get the benefit of the income tax and National Insurance?

Mr Simpson: That is a recognised economic implication.

Mr Cree: But does Treasury recognise that?

Mr Simpson: It is recognised in that that is the reason why we are doing it. We are seeking to reduce the rate of corporation tax to increase economic activity, and, with increased employment and prosperity, there is a recognition that that will have an impact on other tax yields. The effect is recognised; what has not been agreed at this point in time is whether that is reflected and estimated as part of the block adjustment.

Mr Cree: Does it not agree in principle that that is fair?

Mr Simpson: It has not done so at this point. That was discussed back in 2012 as part of the joint ministerial working group, and it was left in the report to the Prime Minister from that group that there were some unresolved issues, and one of them was how those costs would be treated. As I said, the Treasury has not said that it will not take that into account, but, equally, it has not said that it will. In discussions, one of its concerns has been that it is difficult to estimate what those will be.

Mr Cree: I appreciate that. I think that the difficulty has been that, because these have not been separated out, Treasury has dropped the whole issue. That is why I wonder whether the principle has been agreed, never mind the detail, at this stage. Arguably, the principle should have been decided at the outset. That is fair and reasonable: do you agree? We would then be working under slightly better conditions, although still fighting about the details, because I would guess that the Treasury is probably frightened of the magnitude if it does not know the detail.

Mr Simpson: That is certainly something that our Ministers on the Northern Ireland side have pressed for before in the joint ministerial working group. Agreement was not reached at that stage, and we will continue to see whether we can have that reflected in some way in the block adjustment. However, agreement on that would drive down the cost to Northern Ireland.

Mr Cree: That should be clear. Anyway, my second point is on the implementation of a lower rate of corporation tax. You touch on that in your paper. Surely if that is agreed, that would be sufficient for businesses considering foreign direct investment (FDI)? They have a long gestation period as well. You mentioned that the details may take two years to work out, but whatever that period is, I believe that we can get the benefit of the reduced rate without any cost, because you do not implement it straight away. Is that not true?

Mr Simpson: Yes. The key thing will be that, once that is devolved, the Executive have signalled in the Programme for Government that the commitment is to secure the power and then to reduce the rate. There is not an agreement with the Executive as to what the rate will be. Investors will look to see, once we have that power, what we do with it. You are quite right. If there were an announcement from the Executive that they were going to reduce the rate to a certain level by a certain time, investors could build that in to their planning decisions and say that they will start to make plans to come to Northern Ireland in three years, which would be 2017 or 2018. So, you are right.

Mr Cree: When you implement it, that is when the costs will come. By that time, hopefully, you will have the —

Mr Simpson: Yes, and that will be a key consideration for the Executive on how they reduce the rate. We are looking at the reduction in the rate to drive FDI and to encourage greater economic activity in the local indigenous base. You are right about those FDI flows.

Mr Cree: You are still talking about the big ones, the banks and companies like that, which would benefit from the cut at present. I am not too worried about them at this point.

Mr Ó Muilleoir: Good to hear a radical voice raised, Leslie. Thanks, Tony and William, for joining us. You said that we want to have corporation tax devolved to encourage economic growth, and, of course, that is true in the round. Yesterday, I heard the Minister for the economy predicting 40,000 jobs. Actually, economic growth in itself is wonderful but what we really want is jobs. We want sustainable jobs, and we want well-paid jobs. We want jobs that with perhaps a broader geographic spread than heretofore. Has there been any thought given to the types of jobs that we might draw in under the devolution of corporation tax? Our colleagues across the border have had great success with the likes of Pfizer, Boston Scientific, Google, Twitter, Facebook and Linkedin. What jobs do you think we will bring in because of this, and will they be value-added jobs? Will they be jobs that will make a difference?

Mr Simpson: That is a key motivating factor for reducing corporation tax. Because it is reducing the tax on profits, you are attracting more profitable activities. The criticism that has been levelled in the past is that some of the jobs that were coming were perhaps relatively lower value added and not in those high-profit sectors. We have seen a change. Invest NI in recent years has been very successful in bringing in higher value-added jobs, but this will only strengthen the skewing of the nature of FDI in those sectors that are more productive, paying higher salaries and in a broader range

of sectors. Recently, we have been very successful in attracting FDI for IT jobs and back office jobs servicing banks. With lower corporation tax, we would be more attractive to a broader range of high-value-added, high-paying companies.

Mr Ó Muilleoir: The Minister deserves praise as well because, by my count, yesterday made it 66 job announcements since April. I only know that it is 66 because, when the CEO of Invest NI was here three weeks ago, it was 64 and there have been two since. That is clearly a feather in our cap and a great recognition of the work that Invest NI is doing. Do you agree that the hard work will only start when corporation tax powers are devolved? It seems to me that there is a lot of devil in the detail. Also, we need to really understand, ourselves, what we are going to do. None of us want to create jobs and have the benefits in income tax go straight to London. They are squeezing us hard enough as it is at the minute. I attended the Northern Ireland Chamber of Commerce breakfast yesterday morning, where businesses united around corporation tax, but it seems to me that it is important that we say to business that, when corporation tax is devolved — if we have a deal this week, although some of us were unhappy about how that was presented, but I will set that to the side — you guys will have your hardest work ahead of you. Do you agree?

Mr Simpson: In a word, yes. Absolutely. It has been a long journey to get to where we are now, and there has been a lot of work to get us here. Certainly, this is a very powerful economic lever, and not just us in DFP but the Departments across the Executive need to make sure that we are well placed to capitalise on that. So, there is a job for Invest NI to go out and market and ensure that we are attracting in the businesses. Skills will be vital. If we are to bring in high-value-added firms, we need to make sure that we have a workforce that is able to take advantage of those jobs. There is a huge opportunity for the Executive, but we really need to make sure that we are there to capitalise on it.

Mr Ó Muilleoir: Since you are so keen to do work, it also seems to me that there is a possibility that we will enter into a new era of job creation here. The Minister talked about 40,000 jobs which, if not miraculous, would be a formidable achievement by any Administration. Do you think that DFP and your colleagues across Departments would be up for the challenge of trying to get a greater spread of economic growth? The criterion for our friends across the border in the Industrial Development Agency (IDA) is 50% of FDI new jobs created outside Dublin and Cork. Do you feel that these 40,000 jobs may be an opportunity for us to ensure that economic growth is more evenly spread? Of course, I am thinking of north and west Belfast and west of the Bann in particular.

Mr Simpson: Certainly, we would like to see prosperity levels increase across Northern Ireland. It would be an issue for DETI and Invest NI to see how they can promote particular areas and how that prosperity is shared. We would like to see a rising tide lifting all boats. What it will do is change the nature of the investment that we are going to get in. At the moment, a lot of it is very focused on providing financial and IT services. I am no expert on this; my colleagues in DETI and Invest NI would be better placed to advise, but if you look at the example in the South, where there is more high-tech advanced manufacturing, which may not be particularly suited to a city-centre location, we may, perhaps, be able to attract more of those sorts of investments. There may be the potential for those to locate outside the narrow —

Mr Ó Muilleoir: Can we promote this man?

Mr Simpson: I am happy for that to go on the record.

Mr McQuillan: My question was along the same lines as Máirtín's. I want to ask how we ensure that there is a fair spread across the North and that we do not get it all in Belfast. I am thinking of the north-west region, going right round to Coleraine and Ballymoney. *[Interruption.]*

Mr Simpson: I am conscious of straying into the territory of DETI and Invest NI when it comes to how different parts of Northern Ireland are promoted. Essentially, what Invest NI would be seeking to do — and is already doing, I have no doubt — if we had the corporation tax powers, is to promote Northern Ireland as a whole. We would like to see people who live across Northern Ireland benefit as much as possible from the increased prosperity that will come from this.

Mr McQuillan: It will take a bit of innovative thinking to get that as well and to get these big firms to think about locating outside Belfast. That has to come from you and DETI jointly to get something set up.

Mr Simpson: There is a big challenge there.

The Chairperson (Mr McKay): Tony, we took evidence from Professor Gerald Holtham about the Barnett formula review. We noted the potential need for additional borrowing flexibility. Obviously, we need to guard against budgetary shocks from the variation of the rate. Having the ability to borrow more money to offset any reduction in the Budget may be something we will need to look at. Is there a departmental view on that?

Mr Simpson: Absolutely. As you have seen, the past number of years have been unique in recent history, but if you look at corporation tax receipts going back to 2007-08, they were hugely volatile given the impact of the downturn. I would like to think that we are not going to see that sort of volatility again in the short to medium-term future, but you need to have mechanisms there. There will be short-term volatility, although not fluctuations of the same degree, but you need to be able to manage that. We will need some short-term mechanisms to manage that volatility. You do not know what the tax lift is going to be next year; you can forecast it but you need to ensure that you can manage —

The Chairperson (Mr McKay): The more control you have over that the better.

Mr Simpson: Yes, absolutely.

Ms Boyle: I apologise for missing your presentation, Tony. I want to ask about small to medium-sized enterprises (SMEs). Obviously, everybody will benefit, but already we are hearing from small businesses; Máirtín and others mentioned the west and my own area. What benefits will there be for small businesses?

Mr Simpson: Small businesses will be eligible for the regime. It was agreed at the joint ministerial working group that small businesses would be treated as being in or out of the regime depending on whether they are located in Northern Ireland and whether their activity is based in Northern Ireland. So, what we want to see is a regime where there is a lower administrative burden for those small firms. At the moment, they are paying the current tax rate, which is 21%. They are going to see that reduced to a particular level that the Executive may decide. That will give them more cash, which they can reinvest in their business and improve cash flow. So, there are advantages and benefits for small businesses across the region.

The Chairperson (Mr McKay): Tony, if there is any slippage in the timetable, you are facing into the Westminster election, and you could have any number of combinations of a rainbow coalition in Westminster. How is the Department planning for that scenario because the Labour Party and the Tories across the water will have different views on the transfer of corporation tax?

Mr Simpson: We are still working on the basis that we will get the legislation introduced and passed in the current Parliament. In the autumn statement, the Chancellor said that, subject to satisfactory progress, whatever that may be deemed to be, they would introduce the legislation immediately after, and there is time in the current Parliament to get this through and get Royal Assent beforehand. So, we are working to do it with this Government not the next.

The Chairperson (Mr McKay): Is there time?

Mr Simpson: The officials and the Chancellor have said that it is possible to do it in this Parliament.

The Chairperson (Mr McKay): The cynical view would be that the Chancellor has perhaps set this up to fail because of the conditionality attached to the offer. What is the Department's view? You will be aware of how legislation in Westminster can be delayed and can be subject to timetables. How tight is it going to be?

Mr Simpson: There is not a lot of scope for slippage in the various stages that we are going to go through. The legislation as currently drafted is what is termed a "money Bill". There is a time limit. I am not a legislative expert, but it has to go through the House of Lords within a month of being passed through the House of Commons. It is legislation that is designed to go through more quickly than other more standard Bills.

Mr Girvan: The Christmas deadline was set because a lot of stuff has to be through by 7 January. I think that this has to go to the House of Lords by 15 January. They can progress it to a certain stage, but, if we have not dotted our i's and crossed all the t's, the thing could fall on the condition applied by the Chancellor.

Mr Cree: Tony, there is one thing that has not been touched on yet: what is the Department's view on displacement or brass plating? How will you handle that?

Mr Simpson: We have been working closely with HMRC on developing the design of the new regime. There are behavioural costs built into the cost estimate of bearing the full fiscal consequences. It is in our interests for those to be as low as possible. The regime has been developed in such a way as to reflect the fact that there will be a differential rate in Northern Ireland, which will be an incentive for companies to take advantage of to minimise their tax bill. The regime has been designed to control that and ensure that that sort of activity is minimised and that the costs we incur are as small as possible. There is a lot of detail there when we see the draft Bill.

Mr Cree: Is work being done?

Mr Simpson: Absolutely. That is something that we have been very mindful of, because, with the lower rate in Northern Ireland, companies will naturally try to minimise their tax bill, so we have to put controls and checks in place to ensure that that is minimised.

Mr Cree: The big danger is that they will not actually move, but they will have a subsidiary that happens to be the head office.

Mr Simpson: Yes. The regime is being developed with that in mind. As I said at the outset, one of the key objectives is to ensure that a regime is designed that is attractive to business but generates genuine economic activity and not just the shifting of profits from GB to Northern Ireland.

Mr Cree: Both jurisdictions would lose out. They would not benefit from that.

Mr Simpson: It is something that we have been trying to guard against.

The Chairperson (Mr McKay): OK. I seek agreement to copy the Department's briefing to the Committee for Enterprise, Trade and investment for information.

Members indicated assent.