



More fiscal devolution for Northern Ireland?

Paul Johnson, Chair

Department of Finance Committee
19 January 2022

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.

Our interim report...



Reporting in two stages

Outline of context and factors for successful fiscal devolution

Assessment of individual taxes in the Northern Ireland context

Shortlist of taxes for further consideration in our final report

...to final report

Will revise and add to our interim report, rather than start afresh

Analysis of the operational aspects of implementation

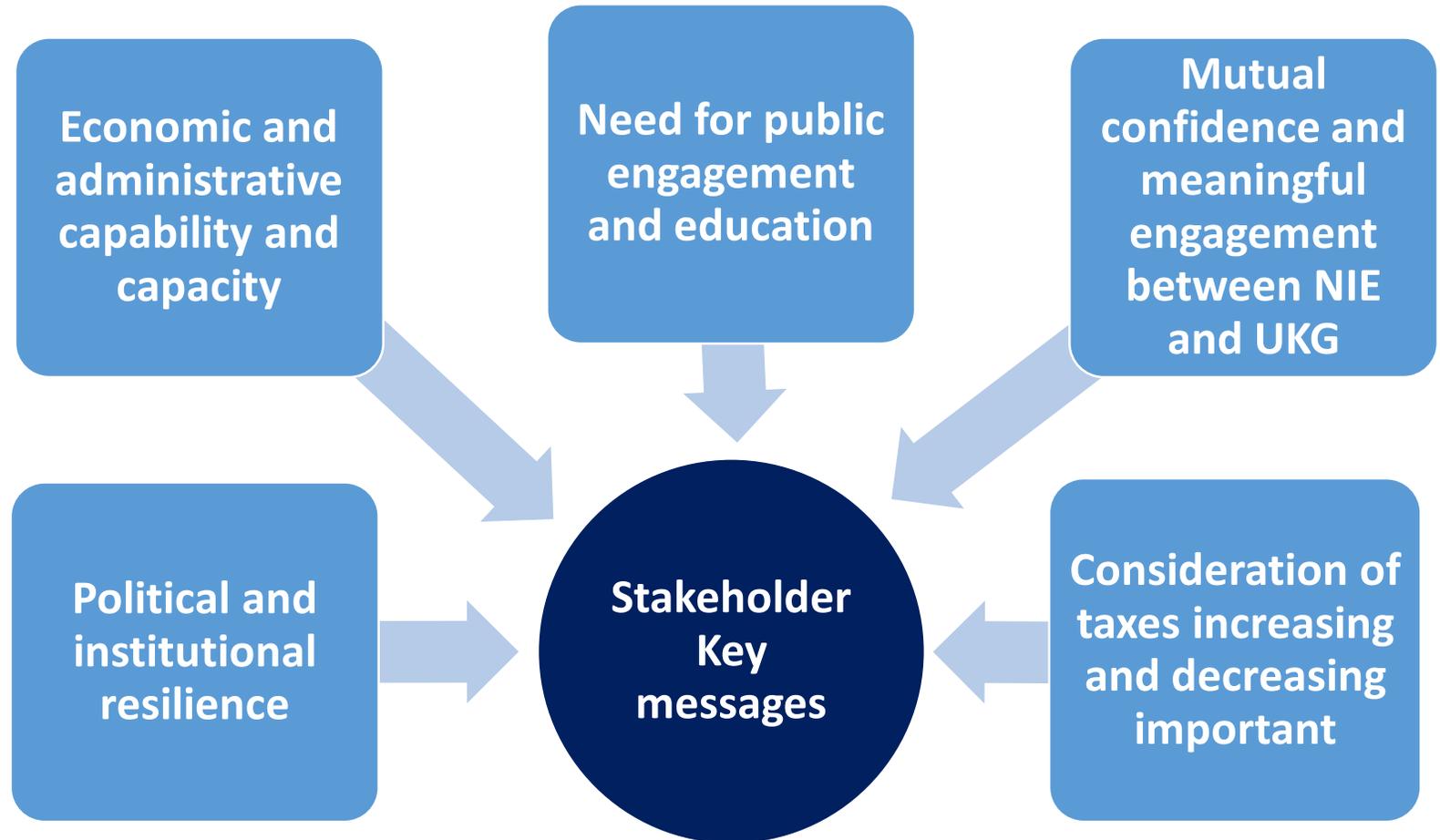
Ongoing stakeholder engagement

Commission will put forward our conclusions for fiscal devolution



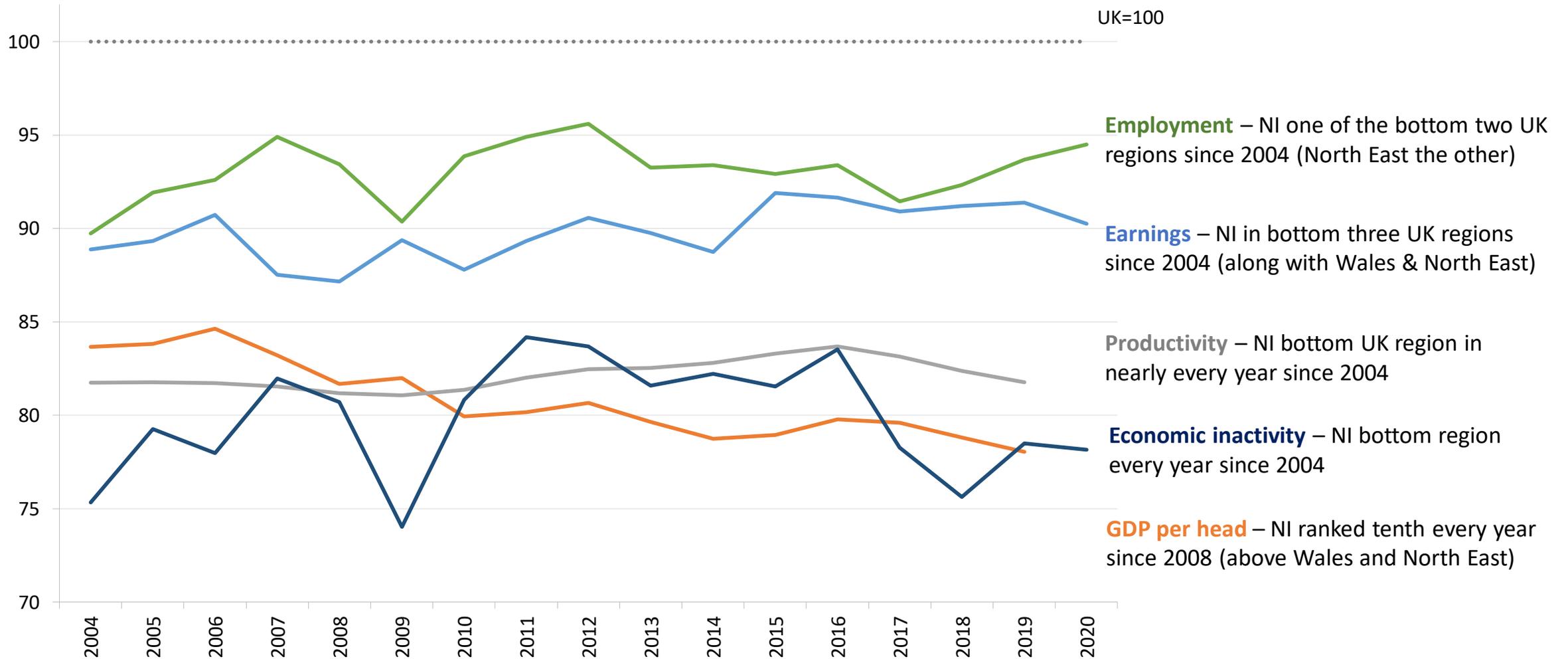
Valuable input from stakeholder engagement to date

- Met with over **50** organisations / stakeholders to date
- Academia; Economists; Business Organizations; 3rd Sector bodies; government; and Trade Unions
- Met with representatives from **all main local political parties**
- Presentations at the **British and Irish Conference** and the **NERI 2021 Donal Nevin Lecture**



NI underperforms UK average, aligned with Wales and North-East...

Comparison of selected economic measures, NI vs UK, 2004-2020 (UK = 100)



UK=100

Employment – NI one of the bottom two UK regions since 2004 (North East the other)

Earnings – NI in bottom three UK regions since 2004 (along with Wales & North East)

Productivity – NI bottom UK region in nearly every year since 2004

Economic inactivity – NI bottom region every year since 2004

GDP per head – NI ranked tenth every year since 2008 (above Wales and North East)

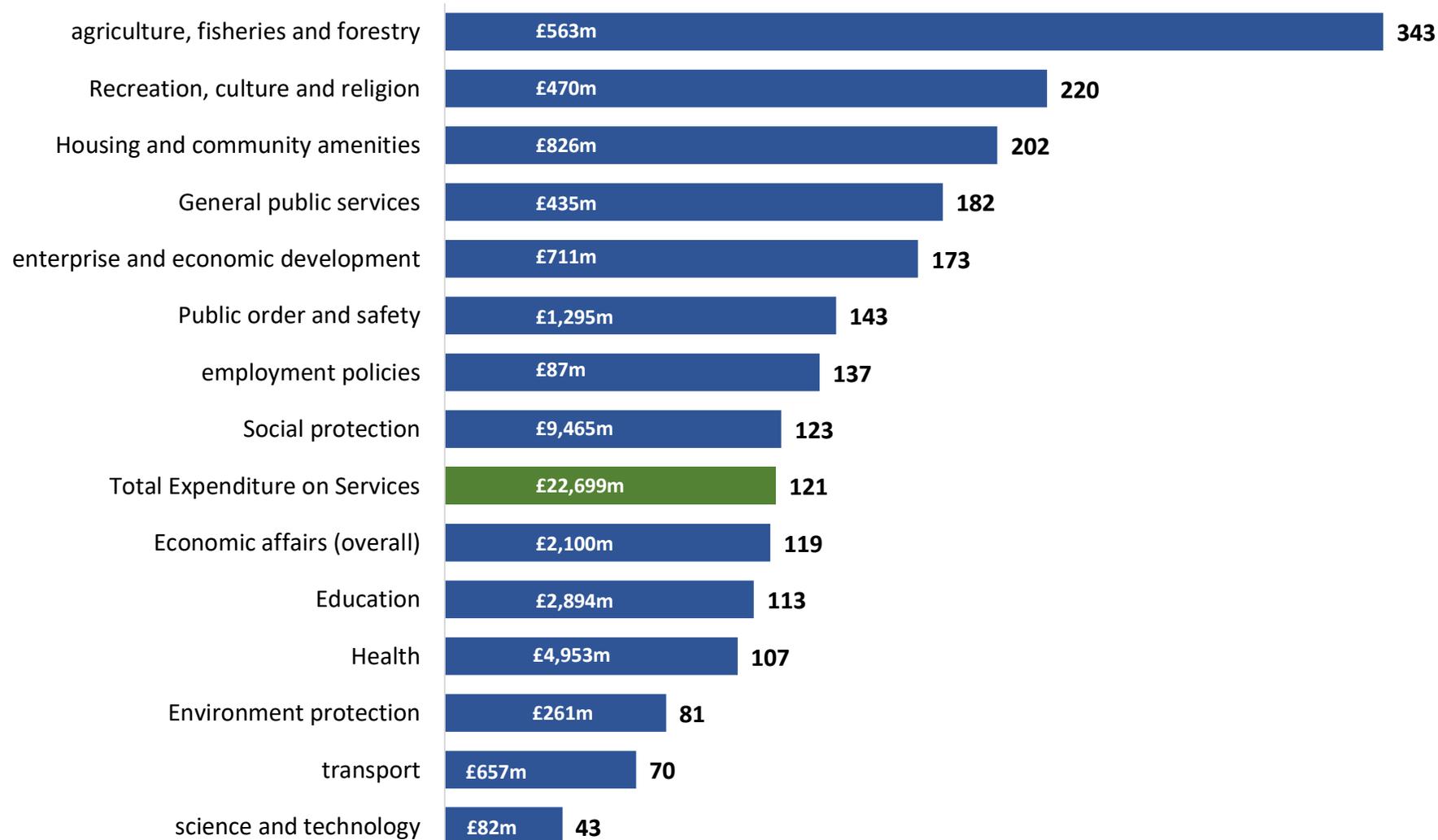
Sources: Nomis, ASHE, ONS Subregional Productivity and ONS Regional GDP

NI has substantial powers over spending, but not over tax..

- **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) - less than £1 in every £20 of tax revenue is raised by the NI Executive.

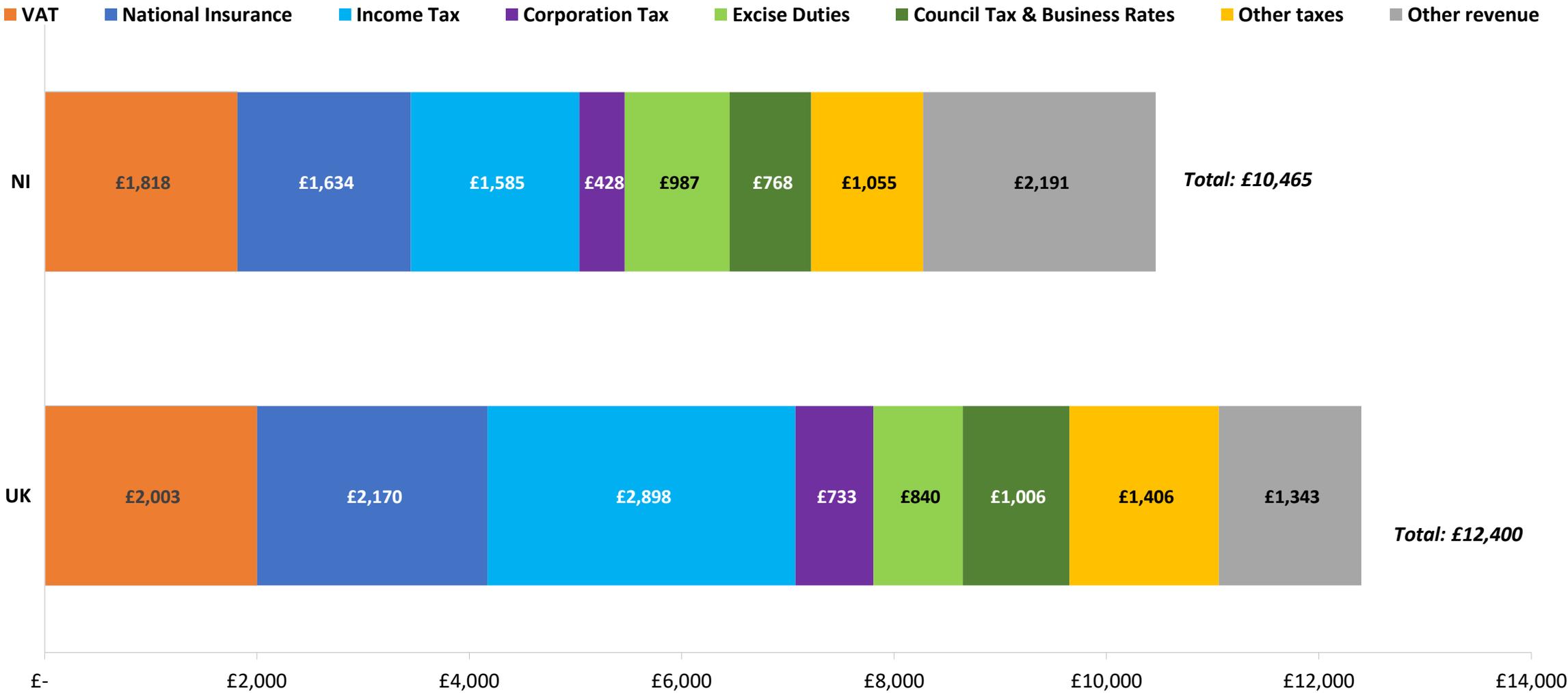
And much higher levels of spend than rUK...

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



And much lower levels of tax generation...

NI vs UK, 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



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

And some significantly more generous taxes and charges

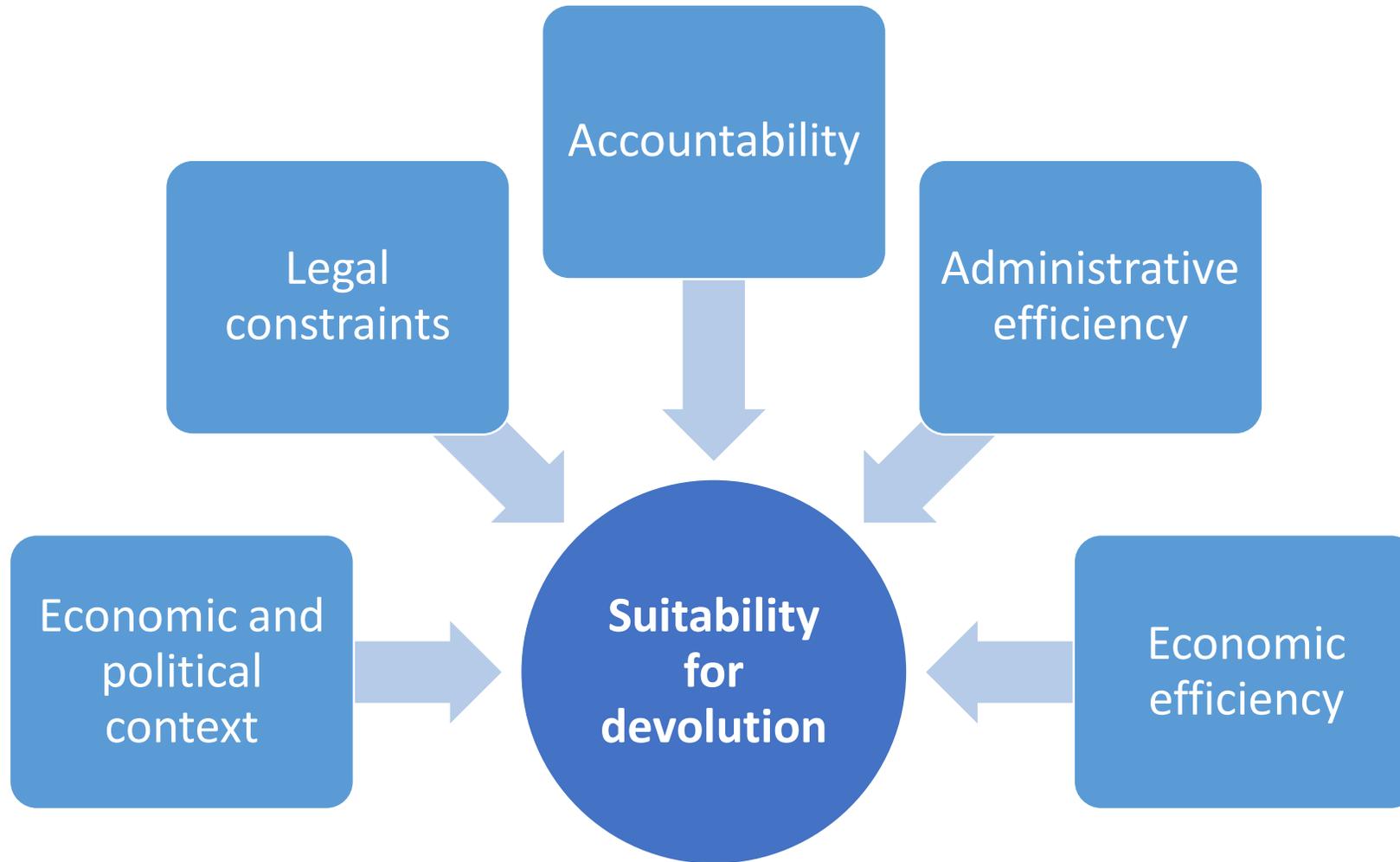
- Examples include:
 - Domestic Water Charges
 - Welfare Mitigations
 - Rate reliefs (domestic and non-domestic)
 - University Fees
 - Prescription Charges
 - Housing Benefit Top Up
 - Concessionary Travel
 - Domiciliary Care Charges
- Total impact in NI **between £600m and £700m** per annum (2021 estimates)
- A UK equivalent would be over **£21 billion** per annum

Importance of Block Grant Adjustments

- **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
- **Example provided in Interim Report. Final Report will provide much more detail.**

- **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

Commission's criteria for assessing taxes



Key points ahead of further fiscal devolution

No reason in principle why, in the long term, a substantial fraction of current taxes could not be devolved

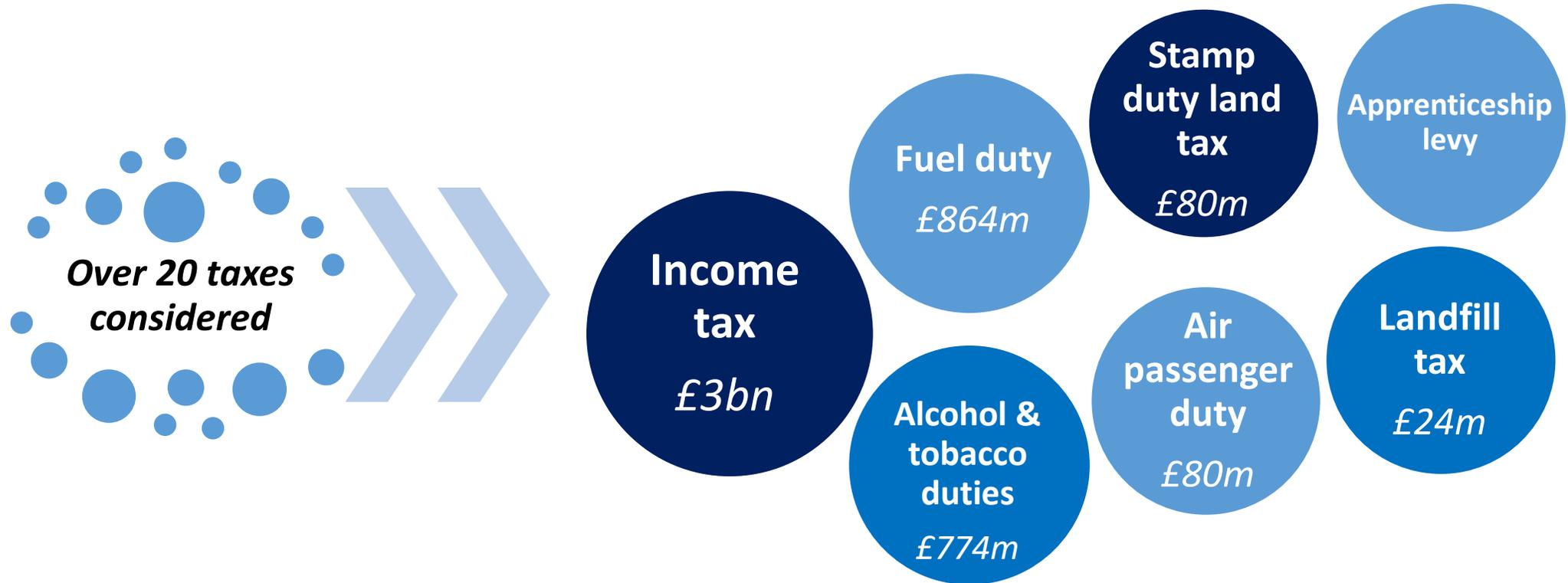
Northern Ireland should not seek the devolution of more than one 'major tax' at this time

Arguably, Northern Ireland should look to pursue smaller taxes in the first instance

Northern Ireland should take on further powers gradually

We have looked in detail at over 20 different taxes...

We will look further at these seven in final report



Corporation tax... a complex case

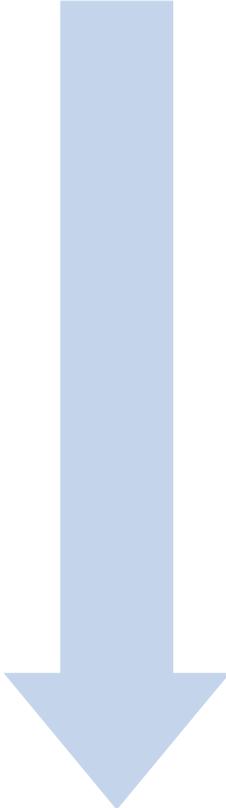
- The case is all about the opportunity to improve economic performance. It is different than the other taxes we have considered
- Long history surrounding a rate with legislation already in place, although never ‘commenced’



Evidence that it would be a strong economic lever...

- Studies suggest it would make NI a more attractive location to invest – boosting economic output, employment and wages
- Legislation already in place, administration progressed
- Relatively well understood tax in NI

However, comes with technical and political complexities...

- Potential for significant economic distortions / complexities around administration and large cost to NIE
 - Need for agreement over block grant adjustment - direct revenues; behavioural; spillovers?
 - Highly uncertain environment and vulnerable to international changes
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- **Commission pre-requisites for successful devolution:**
 - A clear statement of intent from the NI Executive on **how devolved powers would be used;**
 - Agreement with HM Treasury over **how the block grant would be adjusted** in response to the mechanical effect of a cut in tax rate on revenue;
 - **A clear method for agreeing how**, if at all, other effects on revenues would be taken into account, and **a method for resolving disputes** with HM Treasury;
 - An **agreement with HM Treasury over some limited additional borrowing powers** to cover part of the short-term hole created by a tax cut;
 - **A clear commitment from the NI Executive** over how it would fill the rest of the short-term hole in its revenues created by a tax cut and repay its additional borrowing.

Taxes not prioritised for further investigation...

Taxes where there is a case in principle for devolution, but are less of a priority

- Value added tax
- National insurance contributions
- Vehicle excise duty
- Capital gains tax
- Betting and gaming duties
- Inheritance tax
- Climate change levy
- Aggregates levy

Taxes that are not strong candidates for devolution in Northern Ireland

- Insurance premium tax
- Stamp duty on shares
- Soft drinks levy
- Taxes on specific business activities



Questions?