



Knowledge Exchange Seminar Series (KESS)

...is a forum that encourages debate on a wide range of research findings, with the overall aim of promoting evidence-based policy and law-making within Northern Ireland



How Should NI Respond to Corporation Tax Cuts in ROI and GB?

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Corporation Tax Cuts

- Fresh Start Agreement committed NI to reducing Corporation Tax rate to 12.5% in 2018
- Aim was to attract high quality Foreign Direct Investment, particularly from the United States
- Intention was to match tax rate in ROI, and be lower than GB
- However, much has changed since the Fresh Start Agreement was signed



What Trump's victory means for you and your taxes

Published: Nov 10, 2016 9:32 a.m. ET



The president-elect plans to make some radical changes to your taxes



Ireland slashes corporation tax to just 6.25pc - but there's a catch

The country's already low corporate tax rate will fall to just 6.25pc for earnings linked to research and development in Ireland



Ireland's finance minister Michael Noonan promised to protect the low rates of corporation tax in the country Photo: Getty

Corporation tax could be HALVED if Brussels blocks a free trade deal: Downing Street plans to cut rate to 10% as a 'nuclear option'

- Britain could lower its corporation tax to 10 percent, the lowest in Europe
- Rate would be even lower than Ireland, which has attracted in many firms

By DANIEL MARTIN CHIEF POLITICAL CORRESPONDENT FOR THE DAILY MAIL

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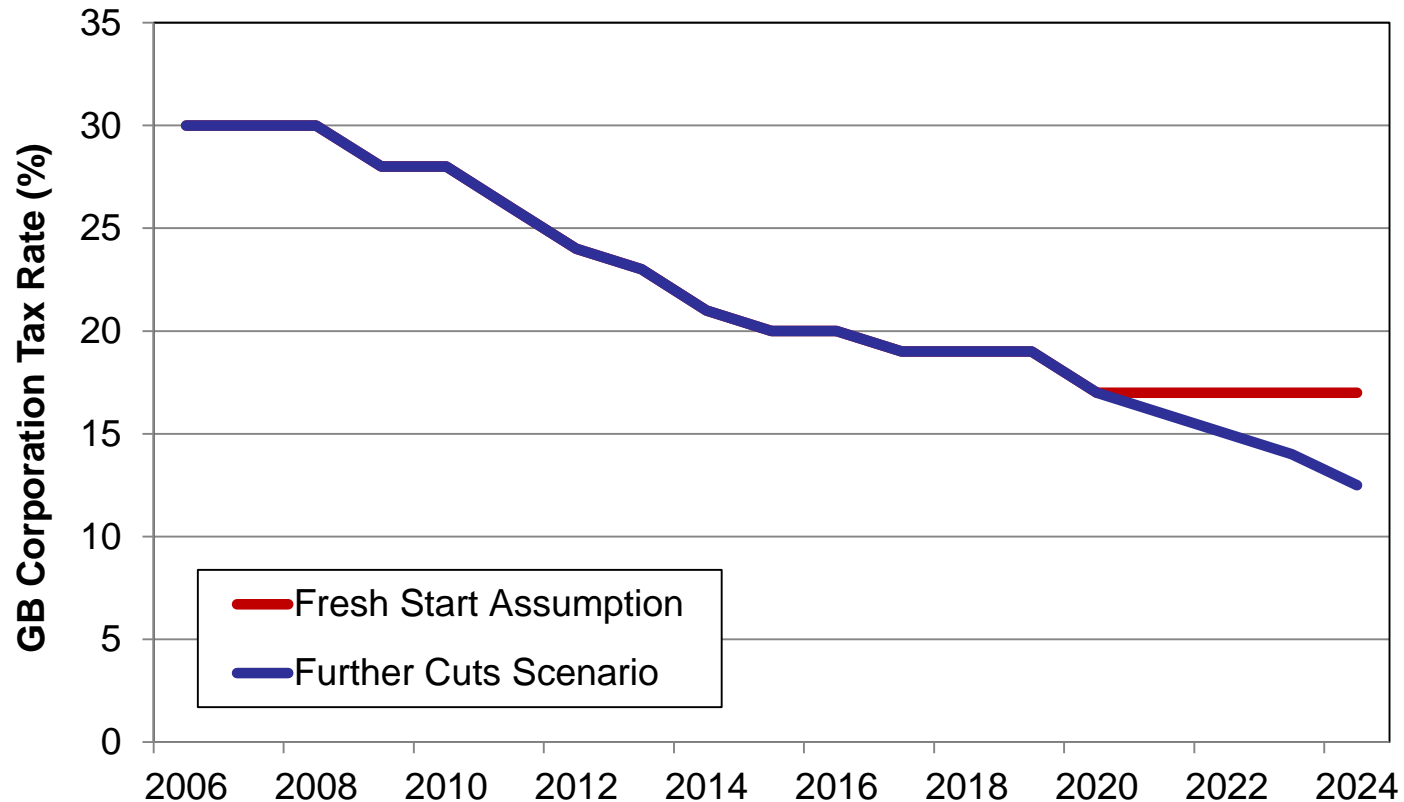
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Britain could threaten to halve corporation tax if **Brussels** is unwilling to offer a good **Brexit** deal, it emerged yesterday.

Downing Street has discussed the plan to cut the rate from 20 per cent to 10 per cent as a 'nuclear option' if the EU blocks a free trade deal or refuses to give UK financial services firms access to the European market.



GB Corporation Tax Trends



Challenge or Opportunity?

- According to the legislation which allows NI to set its own corporation tax levels, any rate can be set, even zero, and it can be reviewed annually
- The cost of implementing tax cuts in NI depends on the GB rate
- Any reductions in Great Britain should be seen as bringing an opportunity for further reductions in Northern Ireland



Costs and Benefits of NI Responses

- Have calculated a baseline of estimated costs and investment, using HM Treasury consultation from 2011, updated to Fresh Start conditions
- Assess how different responses would affect the cost to the NI Executive
- Estimate the impact on investment, assuming that corporations base their decisions on what is expected to happen to tax rates



Baseline Costs and Investment

Year Ending	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Tax Rates (%)							
GB Rate	19	19	18	18	18	18	18
NI Rate	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Expected Corporation Tax Raised if at GB Rate (£m)							
UK	45,421	42,140	42,418	43,267	44,132	45,014	45,915
NI	590	548	551	562	574	585	597
Loss as proportion of GB Rate	-34%	-34%	-31%	-31%	-31%	-31%	-31%
Loss to NI Executive from introducing NI Rate Due to: (£m)							
Direct Effects Loss	-67	-125	-168	-172	-175	-179	-182
Profit shift from Rest of World	12	23	20	20	20	20	20
Profit shift from GB	-17	-29	-22	-21	-19	-19	-19
Tax Motivated Incorporation	-11	-27	-32	-42	-46	-46	-46
Total	-83	-158	-203	-214	-221	-224	-228
Additional Investment (£m)							
	163	190	215	247	279	281	283

Fresh Start Baseline

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
GB Rate (%)	19	19	18	18	18	18	18	
NI Rate (%)	12.5	12.5	12.5	12.5	12.5	12.5	12.5	
Investment (£m)	163	190	215	247	279	281	283	1,658
Cost (£m)	-83	-158	-203	-214	-221	-224	-228	-1,332
Ratio	1.95	1.21	1.06	1.15	1.26	1.25	1.24	1.24



NI maintains 12.5%

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
GB Rate (%)	19	19	17	16	15	14	12.5	
NI Rate (%)	12.5	12.5	12.5	12.5	12.5	12.5	12.5	
Investment (£m)	130	123	94	67	41	15	0	470
Cost (£m)	-83	-158	-163	-132	-96	-57	0	-689
Ratio	1.55	0.78	0.58	0.51	0.42	0.27	0.00	0.68

NI cuts ad-hoc

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
GB Rate (%)	19	19	17	16	15	14	12.5	
NI Rate (%)	12.5	12.5	12.5	12.5	11.5	11.5	11.5	
Investment (£m)	135	137	117	103	91	66	51	702
Cost (£m)	-83	-158	-163	-132	-137	-98	-39	-810
Ratio	1.62	0.87	0.72	0.78	0.67	0.68	1.32	0.87

NI matches cuts

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
GB Rate (%)	19	19	17	16	15	14	12.5	
NI Rate (%)	12.5	12.5	11.5	10.5	9.5	8.5	7	
Investment (£m)	163	190	215	247	279	281	283	1,658
Cost (£m)	-83	-158	-205	-218	-225	-231	-236	-1,356
Ratio	1.95	1.21	1.05	1.14	1.24	1.22	1.20	1.22



NI cuts main rate, keeps small profits rate at 12.5%

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
GB Rate (%)	19	19	17	16	15	14	12.5	
NI Main Rate (%)	12.5	12.5	11	9.5	8	6.5	4.25	
NI Small Profits Rate (%)	12.5	12.5	12.5	12.5	12.5	12.5	12.5	
Investment (£m)	172	209	249	297	346	356	363	1,992
Cost (£m)	-83	-158	-190	-185	-173	-162	-144	-1,095
Ratio	2.06	1.32	1.31	1.61	2.00	2.20	2.52	1.82



Conclusion

- Maintaining the 12.5% rate, the default approach, would be the worst possible option
- Matching cuts on an ad-hoc basis would be unlikely, and would be suboptimal even if it happened
- A much better approach would be to publicly commit now to match any cuts in the GB rate, reducing the NI rate to 11.5% by 2020, and possibly to 7% by 2025 if the GB rate is cut further
- The boldest move would be to focus cuts on the main rate, which would be of most importance to major multinationals

What if we pre-commit to matching GB cuts, but the GB rate does not fall?

- If the GB corporate tax rate never falls, then the NI rate just remains the same as it is now, and there will be no cost
- However, pre-commitment will still have a positive effect in attracting additional investment, as corporations will know that the tax advantages of basing in Northern Ireland will exist long-term
- The NI Executive should pre-commit to matching further cuts now, whilst there is still a political consensus



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