



Reducing Corporation Tax
and accelerating **GROWth**



Reducing the Rate of Corporation Tax in Northern Ireland. What you need to know.

On Thursday 24th March 2011, the Treasury published a consultation document called Rebalancing the Northern Ireland Economy (www.hm-treasury.gov.uk/consult_rebalancing_ni_economy.htm.) The document confirms that a lower corporation tax rate would be likely to have a positive effect on local private sector investment and foreign direct investment (FDI) and that increased investment typically leads to increased growth and employment. The consultation paper does not make direct recommendations; instead, it sets out the issues and asks for a response so that the UK Government can make decisions on the way forward for the NI economy.

We believe this is the single biggest opportunity in a generation to rebalance the Northern Ireland economy and help it GROW. That's why we want you to respond favourably to the Treasury consultation document – your view is very important. Below we set out some of the issues and provide information on how to respond.

1. What are the main benefits of reducing the corporation tax rate in Northern Ireland?

The Treasury document outlines the main benefits as being additional investment into Northern Ireland by new foreign-owned firms and by existing firms. The document estimates that FDI will grow by over £300m per annum within 10 years of reducing the rate of tax to 12.5%. The benefits are not restricted to foreign firms however, with a smaller tax burden, indigenous firms will have greater scope for investment and innovation. This will lead to increased economic growth and a stronger private sector to help contribute to the rebalancing of the NI economy. Ultimately, the main benefit will be the creation of long term employment and a stronger private sector.

Whilst the document does not quantify the potential number of new jobs, the Northern Ireland Economic Reform Group (www.erni.org) estimates that a reduction in the rate of corporation tax to 12.5% could lead to the creation of 90,000 new jobs over a 20 year period. We acknowledge that the number of new jobs cannot be guaranteed and is based

on certain assumptions, but the clear overall principle is that a reduction in the rate of corporation tax to 12.5% would result in a very significant number of jobs being created over the long term.

2. How can the corporation tax rate be reduced?

Implementing a reduction in the rate of corporation tax to 12.5% on day one would result in an immediate cost to the Northern Ireland block grant. The consultation document estimates this cut would average £225 million per annum over the first 5 years of implementation. In the context of a block grant of over £10 billion, this amounts to a cut of just over 2%.

The consultation document considers alternative measures to reducing the corporation tax rate reduction. These include phasing in the rate cut over a 5 year period (so that the rate reduces by 2.5 % per annum until it reaches 12.5%) and also only applying the reduced rate to trading profits. By combining these alternative measures this would significantly cut the initial annual costs to the block grant. Based on the figures

in the consultation document the cost of combining these alternatives would amount to an average cost of less than £60 million per annum over the first 5 years of implementation. In the context of a block grant of over £10 billion, this amounts to a cost of only 0.5% of the NI block grant.

In summary if the NI Executive was to phase in the reduction of the corporation tax rate and were to only apply the reduction to trading profits, the cost to the block grant would be reduced by over 75% in the first 5 years. This would allow more time for local and foreign investors to generate jobs, increase profits and grow the private sector.

Additional investment will lead to extra corporation tax arising from the increased taxable profits and to additional payroll taxes and VAT. Ultimately the extra taxes raised will exceed the costs of the corporation tax rate reduction and thus the lower corporation tax rate should ultimately pay for itself.

3. What are the possible costs?

If the NI Executive were to obtain the power to vary the corporation tax rate and reduce the rate downward, then in order to comply with EU rules, any reduction in tax collected would have to be borne by the NI Executive. However as noted above the impact of bearing such a cost can be spread out over an appropriate period so as to give the benefits of a reduced rate the opportunity to kick in.

There is also a UK exchequer risk from artificial profit shifting by GB companies seeking to solely benefit from a lower corporation tax rate in NI by either setting up brass plate companies or by manipulating transfer pricing rules. In addition there may be administrative and collection costs that may have to be borne by the NI Executive and some administrative burdens for businesses. However none of these issues are

insurmountable and with the appropriate legislation and monitoring, additional costs should be marginal.

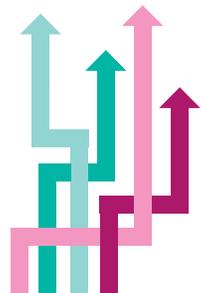
Finally it should be noted that if the NI Executive does pick up the costs of varying the corporation tax rate then the EU Commission are unlikely to object to the variation of the corporation tax rate in Northern Ireland.

4. How can you have a say in this process?

Businesses of all sizes and in all sectors in Northern Ireland have the opportunity to respond to the consultation document and to tell Treasury whether the NI Executive should get the necessary tax varying powers.

All Northern Ireland businesses should take the time to respond to this consultation document because the more positive responses there are, the more likely the Treasury will be to devolve the necessary tax varying powers. There are a set of questions in the Treasury document but you don't need to answer them all and most importantly, it should be YOUR response. You can email your reply to niconsultation@hmtreasury.gsi.gov.uk or send by post.

The Northern Ireland economy needs a major boost to accelerate growth and create the jobs of the future; reducing Corporation Tax is a way in which we can all achieve that and GROW together. Now is your chance to have a say. The consultation closes on June 24th and then it's back to the Treasury in London to decide. Take this opportunity for the future, fill out a response and help us all GROW NI.





- Growth:** in the private sector & the wider economy. Reducing Corporation Tax will attract more business to NI.
- Re-investment:** by both indigenous businesses & new entrants. Lower Corporation Tax means businesses are more likely to re-invest money back into the local economy.
- Opportunities:** for local companies as spin-offs, suppliers or service providers to new entrants and stronger indigenous businesses. The arts, community and sporting sectors will also benefit from a healthier economy through increased sponsorship opportunities.
- Work:** for the people of Northern Ireland. Thousands of quality high-value jobs can be created by attracting companies looking for a business-friendly environment.

To contact GROW NI please visit:
<http://northernirelandchamber.com/Contact.aspx>

