IRISH CONGRESS OF TRADE UNIONS
NORTHERN IRELAND COMMITTEE

Submission on the HM Treasury Review on Rebalancing the Northern Ireland Economy

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Introduction

1. As an organisation representing 250,000 employees in Northern Ireland (NI), Congress welcomes the opportunity to present its views on the review of Corporation Tax (CT) policy in NI, and to explore the options for 'rebalancing' the economy of NI.

2. Congress has an acute interest in this Consultation for two reasons. First we believe that in the interests of our members a fair balance on shouldering the burden of public expenditure has to be struck between the individual citizen and the corporate player. Secondly in the interests of the community as a whole, tax and other incentives must be designed to enhance progress towards agreed economic and social aims.

3. There is a question about the understanding of what is meant by "re-balancing the economy", because merely transferring economic activity between the public and private sectors raises only slightly – if at all - economic growth and better jobs. This point seems to be recognised in paragraph 1.15 of the Treasury paper. This paragraph makes it clear that the rebalancing the economy is the means of achieving the aim "of increasing economic growth overall, rather than redistributing growth between regions and countries". Redistribution between the public and private sectors is not consistent with the aim of growing the NI economy as a whole.

4. Paragraph 2.8 of the Treasury paper says as follows:

   "A large public sector can crowd out the private sector, for example through distorting the labour market and high levels of public sector asset holding. Northern Ireland has high levels of public sector wages compared to the private sector."

   Congress resists this view. It implies that public sector jobs are not as good as private-sector jobs, it assumes that Northern Ireland cannot sell the benefit of its expertise in the administration of public services and in the skills required for public sector to the rest of the UK, which has always been the reason why jobs have been relocated to Northern Ireland. There is also absolutely no evidence of crowding out of the private sector when there is unemployment and there has been persistent unemployment in the Northern Ireland economy. Crowding out only happens when all resources are utilised and that is something that Northern Ireland can only dream about. In other words, there is no reason to get rid of public sector jobs or to run down pay rates in them simply to encourage the private sector when there is already sufficient capacity available for the private sector to create all the jobs it needs. Paragraph 2.9 confirms that that capacity is available whilst paragraph 2.10 also makes clear that the apparent low productivity has nothing to do with actual rates of productivity, but is because the mix of activity in Northern Ireland is different from the rest of the UK. It may, therefore, be that actual productivity rates for the particular mix of employment activity undertaken in Northern Ireland is very high, as may be indicated by the comparison with Wales and North East England.

5. We all (that is the UK Treasury, the NI Executive and all stakeholders) must trenchantly resist the views of those like the chairperson of the Economic Advisory Group, Kate Barker, that **"there would be no mechanism put in place to stop companies retaining the savings or paying them back to shareholders as dividends, rather than reinvesting in the economy".** (Belfast Telegraph, 17th May 2011). At a time of financial stringency, it would be morally and fiscally irresponsible to deliver a free lunch to wealthy shareholders or company directors who would face no obligation to create a single extra job.

6. There is a consensus that the aims of economic policy for Northern Ireland, in line with the Lisbon Strategy for the whole European Union (EU), are to achieve better growth and better employment. Our lower productivity compared with other regions of the UK and Europe has been identified as a major barrier to fulfilling this aim. There is also a large measure of consensus that there are two key factors to closing the productivity gap. In this analysis, we do not differ from the genuine consensus which we share with HM Treasury and every other stakeholder. However, we dissent from the manufactured 'consensus' that the 'game changer' in addressing the shortcomings of the NI economy is a reduction of the rate of Corporation Tax to 12.5%.

7. First we need to improve the structure of our economy so that we have more jobs in higher valued-added sectors, such as knowledge-based industries. Secondly we have to upgrade the skills of both those in the labour market and those who are economically inactive. The proposals set out in this paper are geared to achieving these two objectives. Measures targeted on these objectives will be more effective than a scatter-gun approach, which will carry a lot of deadweight and consequential inefficiency.

8. We propose to approach the Consultation by addressing the key areas outlined in paragraph 1.16 of the consultation paper. Congress will address each of the headings and will do so diligently and under the assumption that the government will treat this submission with the respect it deserves. We apologise for any offense taken if the preceding statement implies that our submission will not be fully considered, but this is being written against the backdrop of the quite unprecedented antics of the Secretary of State, Owen Patterson, who is explicitly on the side of those in favour of a cut in CT and is urging supporters to send as many pro-cut submissions to this consultation. The fact remains that the NI Committee of the ICTU is the democratic voice of its affiliate trade unions and their members. Any attempt to make an equivalence between the views of an employer or a company director and the thousands of trade union members across private and public sectors would amount to a new definition of gerrymandering. This debate has been distorted from its inception by

misinformation, political expediency and undeclared conflicts of interest. One expects such an august institution as HM Treasury to resist being swamped by pleas for tax cuts or pressure from Government Ministers who have surely crossed an ethical line when they use the NIO's resources to call for lobbying his own government: -

> "George Osborne has already announced reductions to the main and small business rates of UK Corporation Tax. That will help every firm in Northern Ireland. Yet given our need to boost the private sector I believe we need to go further… Business men and women, civic leaders and indeed newspapers have to tell the Chancellor what they have been telling me for years, that this is an idea whose time has come…
>
> "The consultation on Corporation Tax runs up to 24 June. I urge everyone to respond positively to the consultation document sending a crystal clear message.
>
> "We want this to happen."
>
> http://www.nio.gov.uk/cutting-corporation-tax-is-crucial-to-shaping-economy/media-detail.htm?newsID=17737

9. We note Paragraph 1.21 which is a proposal to establish "a high level consultation group to consider the issues raised in this paper, involving representatives from the private sector and others in Northern Ireland". We assume that Congress will be invited to bid for a place on this group, as the largest civil society organisation on the island of Ireland, and that it will not be a predictable mouthpiece for private sector employers with a vested interest in a reduced rate of CT. Further, it should not be assumed that all of the private sector are in favour. Several prominent business leaders are opposed to such a move. So far as we are aware, no-one has asked the opinions of private sector employees, although their bosses have been regularly polled on this matter.

10. While it may be understandable that business would like to have its taxes cut, equally the same can be said of the individual taxpayer. However the important consideration is whether a reduction in personal taxes or in business taxes will create more jobs. In our current situation where our continuing economic difficulty is down in some measure to a decline in domestic demand, it is at least

arguable that stimulating domestic consumption by cutting personal taxes would have a more direct effect on economic activity and job creation, than cutting business taxes. Therefore the NI Assembly might consider taking up the offer made to the Scottish Assembly for power to vary income tax bands by10p.

Effect of corporation tax on investment

11. Congress believes that the question of the effect of tax on business should be put in the context of international surveys, which show that the UK is not over-burdened with business taxes in comparison with other states. One such survey is the Ernest and Young Annual Investment Monitor, which confirms that in 2006 the UK's position as the most attractive destination for inward investment had been maintained. This is backed up by more recent research by Price Waterhouse Coopers, in their *Game Changer or Game Over* report of January 2011, which demonstrates that the UK, including Northern Ireland, had the sixteenth most business-friendly regime of 182 countries, despite having a higher corporation tax rate than many other countries. The PWC report notes that: "with around three percent of the UK population, Northern Ireland secured 10.3 percent of new FDI employee jobs, as compared to its long-term average of 7.4 percent." The same report further notes that "there is some evidence that low CT is of limited value in stimulating an indigenous, small-firms economy (such as Northern Ireland's): …'low CT rates are relevant where businesses are already profitable, but not relevant to the growth of emerging companies'…" The footnote to the quotation adds an observation about "deadweight effect of a reduction in rates", meaning that "utilities and banks and long established manufacturers could take a lot of windfall gain to their profits" and that no differentiation can be made, "due to EU rules to prevent discrimination between sectors." This concern was noted by the House of Commons Select Committee on NI report of April 2011, but is summarily dismissed as "rough justice", a remarkably blasé approach for legislators to take.

12. Evidence specific to NI that Congress draws attention to is that the Bank of Ireland has estimated that only 750 businesses in NI actually pay corporation tax at the current top rate of 26%, which will be reduced to 23% by 2014. In contrast

almost 50,000 businesses have benefited from the lower corporation tax rate of 20% for smaller businesses, but this has not stimulated significant economic development. Moreover some of the 750 businesses that pay corporation tax at the 26% rate and are at the forefront of the campaign to reduce CT are financial institutions, newspapers, etc., which may well pocket a reduction in tax and contribute no additional return in terms of economic development. When asked by the NI Select Committee on 10th November 2010 if cutting CT would guarantee anything like the 45,000 jobs which the CBI predicted would follow, its NI chair Terence Brannigan was obliged to admit that "there is no guarantee and it would be totally misleading of me to sit here and say that I could guarantee you. I couldn't guarantee you anything." (HC 558-ii, Q110)

13. A feature of the campaign for reducing the rate of CT is forecasting the impact on employment should such a tax cut occur. The first such forecast was presented in the 2006 paper from the Industrial Task Force (often and erroneously referred to as being from ERINI, the then independent economic research vehicle to the NI Government), which predicted that an additional 5,000 new jobs per annum would result in a cut from reducing CT from its then rate of 30% to 12.5%. From the perspective of 2011, it is easy to mock the upbeat predictions of the boom period, but that has not prevented subsequent pro-cut proselytisers from making predictions. The 2010 report from the Economic Reform Group suggest that 80-90,000 new jobs would be created in the 20 years after reducting CT to 12.5%. Based on the same evidence and methodology (itself created by the TaxPayers Alliance as part of its proposals to dramatically reduce CT across the entire UK) , the CBI plumped for the same figure, using a formula that "a 1% reduction in corporation tax brings a 1% increase in employment", as Mr Terence Brannigan told the NI Select Committee. When pressed, however, Mr Brannigan conceded that he "couldn't guarantee you anything", as noted in the previous paragraph.

14. Another attempt at predicting the creation of new jobs was made by the Economic Advisory Group, which provides "independent advice to the DETI minister," Ms Arlene Foster. The EAG predicted 58,000 new jobs by 2030, based on CT being reduced to 12.5% by 2014. "This represents an average of over 4,500 jobs per year in the longer term, throughout the economy, peaking at 5,800

per annum by 2030." However, the full EAG report includes both higher and lower scenarios, of 69,000 and 47,500 new jobs.

15. While noting the more cautious estimates of the EAG, it should be further and especially noted that the three reports referred to (the EAG, the Industrial Task Force and ERGNI) all use the same methodology and the same company to 'run the numbers'. That company is Oxford Economics, whose Director of Regional Services, Neil Gibson, "was instrumental in building the Corporation tax model underpinning the ERINI study and has constructed a wide range of forecast and analytical models relating to current policy debates", according to the ERGNI website (http://www.ergni.org/about.php). Mr Gibson is rightly described by the ERGNI website as having "particular experience in developing forecast models, delivering evidence based policy advice and providing thought leadership on issues facing regional and sub-regional economies", and there is no suggestion here that his character or his ability as an economist is under any question. However, it should be noted that the three most important reports arguing the case for reducing CT in NI all use the same methodology and the expertise of the same company and the same economist. While understandable from the more polemical reports from ERGNI and the Industrial Task Force, it is surprising that the EAG would rely upon the same source for independent and impartial analysis. The fact remains that Mr Gibson is a member of ERGNI, which is a campaigning organisation, which "take(s) the view that reduced corporation tax is the best way to ensure a rapid acceleration in investment and productivity." This is no criticism of Mr Gibson or his colleagues in ERGNI. It is, however, an issue of legitimate public concern that a publicly-funded body, which provides "independent advice to the DETI minister", should use without comment or caveat the skills of Mr Gibson, without an attempt to 'balance' the situation by utilising the skills of other economists who may hold a contrary view to Mr Gibson.

16. It is notable that the analysis provided by HM Treasury on the issue does not attempt to predict the effect on employment following a reduction in the rate of CT. This is wise. As noted in paragraph 4.28 of the Treasury paper, "estimating long term job creation with accuracy is extremely difficult".

17. HM Treasury have, however, carried out estimates as to the loss to HMRC of CT revenues, and the knock-on effect on the annual block grant to NI. HM Treasury estimate that the total tax effect will be between £230-285 million per annum by year 5 of the changed tax regime. However, estimates vary wildly, with ERGNI concluding much lower losses for HM Treasury and a 'break even point' as early as "Year 7 or 8". This optimistic estimate can be explained by ERGNI's reluctance to include additional costs should some companies engage in profit-shifting or tax-motivated incorporation. The Varney report of 2007 estimated that losses to the Treasury could be as high as £300 million, and it is assumed that the slightly lower estimates made in 2010 by HM Treasury takes into account the decline in CT revenues as a result of the recession.

18. There remains real uncertainty to this matter, which can only be resolved by HM treasury itself. Congress agrees with the recommendation of the NI Select Committee that "The Treasury urgently needs to set up a system which can accurately assess how much corporation tax is collected in Northern Ireland. (Paragraph 66)." Congress further agrees with the NI Select Committee that "The Northern Ireland Executive needs to know how much corporation tax is raised in Northern Ireland, how the corresponding reduction in the block grant will be calculated, including how the block grant is readjusted in retrospect, and how this is likely to impact upon the total block grant and public expenditure planning now and in the future. (Paragraph 68)," and "the UK Government clarify whether any mechanism can be devised that allows HM Treasury to return to Northern Ireland a share of the revenue raised that is not corporation tax if receipts from other taxes are reasonably clearly related to changes in the corporation tax rate (Paragraph 75)."

19. This implies that "other taxes" would include income tax and NIC. HM Treasury accept that the changed (and hopefully improved) economic situation would impact on VAT and excise duties collected. "If this proposal was carried through, revenue raised in Northern Ireland would be collected by HMRC on a UK wide basis, then reimbursed to the Northern Ireland Executive, according to some pre-agreed formula between Northern Ireland and HM Treasury necessitating

another layer of administration. The Secretary of State expressed doubt that this would work, and there are likely to be questions about how any such mechanism would conform to the third criterion of the Azores judgment relating to financial responsibility" (Paragraph 74).

20. Regardless of the doubts of the Secretary of State, the NI Select Committee are right to request that mechanisms for mitigating the cut in the block grant should be explored and that any proposed cut in CT should not be viewed in isolation when it comes to meeting the legal requirements of the Azores ruling.
    There are separate implications of the Azores ruling which ought to be considered, and these will be explored later in this submission.

21. HM Treasury have echoed the concerns about 'Brass Plating' originally raised by the Varney report of 2007. It estimates Tax-motivated incorporation to reach £50 million annually by Year 5 and a £25-35 million yearly net cost to GB from Profit-shifting. It is not difficult to see where such concerns arise when one looks at the most recent listing of NI's biggest businesses, in the Belfast Telegraph's Top 100 Companies. Of the top ten, six are headquartered in GB: Tesco; Asda; Royal Mail; Four Seasons Healthcare; Sainsbury's and Dunbia. The next ten companies include Marks & Spencer, BT, HBOS and Alliance Boots. While we must assume that none of these companies presently intend to take undue advantage of the opportunities which would arise, each has both motive and means to do so. Indeed, there are difficult-to-confirm reports that some GB-based companies have already incorporated themselves as NI-based operations in the clear expectation of a reduction of CT in NI.

22. Legally, there is a limited amount which can be done about this, nor is it a pressing concern for advocates for cutting CT. A solution of sorts would be a 'headcount test', as suggested by the Holtham Commission, or greater devolved powers of tax administration (whose extra costs would have to me met by the NI Executive). Richard Murphy, author of the TUC/ICTU paper *Pot of Gold or Fools Gold?,* comments: "The rest of the UK would then need to put up massive tax barriers to trade with Northern Ireland to prevent artificial tax abuse by companies really located in England, Scotland or Wales, That would be

enormously harmful in terms of administrative burden to doing trade with Northern Ireland."

23. This additional cost would be a substantial burden to the SMEs which comprise 95% of Northern Ireland's existing private sector businesses, but would be perfectly manageable to large companies such as those listed in the Belfast Telegraph's Top 100 companies. Other enterprises which would profit from this scenario would be accountancy firms. Already there is substantial accountancy expertise in conducting business across the land border with the Republic of Ireland. One such is Michael Hall of Ernst & Young, who "has a particular specialism in advising companies which operate in the UK and Republic of Ireland on cross border tax issues", according to his short biography on the ERGNI website (http://www.ergni.org/about.php). Another member of the ERGNI pressure group is Eamonn Donaghy of KPMG, who "provides tax advisory services to some of Northern Irelands largest businesses and regularly provides advice to multinational organisations making inward investments into the North" (http://www.ergni.org/about.php).

24. Moving on to the uptake of tax credits Congress is obliged to highlight the research commissioned by the Department for Enterprise Trade and Investment on the case for a higher rate of Research and Development (R&D) tax credit in NI. This research carried out by Professor R. Harris of Glasgow University showed that the uptake of the available tax credits for R&D in NI was surprisingly low. The efficacy of grants over tax concessions in securing economic aims is highlighted by paragraph 4.96 of the Treasury paper. This paragraph suggests that direct grants are a more effective way of achieving an increased level of investment in training than a training tax credit, although some EU states, such as France and Belgium, go for the latter.

25. The considered opinion of Congress is that the effect of tax on business decision making can be exaggerated, particularly in accounting for the success of the ROI economy. What is needed is a policy mix. Elements for this policy mix are proposed in the final section of this submission.

26. Paragraph 4.11 of the HM Treasury paper sagely notes that “it is necessary to be cautious in assuming that a lower corporation tax rate would have the same effect in Northern Ireland as it had in the Republic.” The first point to be made ought to be the underlying assumption of most of the pro-cut papers that CT at 12.5% was the cornerstone of the ‘Celtic Tiger’. The comparison with the ROI overlooks the undoubted contribution which the various partnership programmes, agreed between the trade unions, employers and governments stretching back over 20 years, have made to the success of the ROI economy.

27. Other factors, which have also been overlooked, leading to the success of the ROI economy, include the availability of a workforce skilled in modern needs, the support for research and development and investment in public infrastructure. These are acknowledged in the PWC report, which adds that the three most crucial factors were long term trends and policy decisions around Geography (an English-speaking EU member), Education and finally Leadership and Consensus from the late 1950s until the collapse of Social Partnership in 2009.

28. The experience of the ROI has not been consistent when it comes to tax incentives. Between 1956 and 1980 the ROI had a zero rate of corporation tax on manufactured exports, but according to Charlie Mc Creevy, the former European Union Commissioner for the Internal Market and former Irish Finance Minister, it did not generate any conspicuous economic success. On another occasion Charlie McCreevy is reported to have said, “You won’t have economic success solely by taxation”.

29. A prime consideration, that is also passed over is the fact that the current rate of corporation tax in the ROI was introduced only eight years ago and after its economy began to take off in the early 1990s. In the ROI employment started growing to an unprecedented extent in 1989 when the rate of corporation tax was 47%. High GNP growth rates for the ROI began in 1994 when the rate of corporation tax was 40%. Immediately prior to 2003 there was a special low rate of 10% for exports and a higher general rate of 28%. Clearly the gestation period

of the so-called "Celtic Tiger" was beyond the framework of the current corporation tax regime in the ROI.

30. As noted in Paragraph 4.78, trading profits in the Republic of Ireland are taxed at 12.5% whilst non-trading profits are taxed at 25%. This distinction should be replicated especially as, according to Paragraph 4.80, "around 25% of CT receipts are from non-trading income. If this were not replicated, then the purported point of the exercise, job creation, would certainly not benefit.

31. *In Pot of Gold or Fools Gold*?, Richard Murphy adds a further consideration based upon his expertise as a Chartered Accountant and a Tax Campaigner. He notes the folly of attempting to emulate the 'achievement' of the Republic of Ireland in terms of tax competition. Murphy notes seven key aspects of Ireland's 'success' which could not and should not be copied by any part of the UK. They are:
    - The use and abuse of the International Financial Services Centre (IFSC);
    - Membership of the Eurozone;
    - Irish rules on the taxation of subsidiary companies;
    - Irish rules on the taxation of dividends;
    - Irish rules on 'thin capitalisation';
    - Ireland's network of double tax agreements;
    - The availability of corporate secrecy in Ireland;
    - The Irish Revenue's willingness to turn a 'blind eye'.

The full text of *Pot of Gold or Fools Gold?* is added to this submission as Appendix 1, where more detail is offered. In short summary, he argues that FDI reached a peak in 2003, the year in which the blanket 12.5% rate was introduced, and declined thereafter. However, Portfolio investment into the IFSC mushroomed. The section on the Republic of Ireland concludes:

The core issue is a simple one, expressed in a formula that explain how much tax is collected in any tax system, which is:

Tax collected = Tax rate x income subject to tax

32. The proposal that has been made to reduce the corporation tax rate for Northern Ireland to 12.5% concentrates solely on the tax rate element of this equation. The reality is that whilst this is the totem that attracts business to Ireland the matters described in this section – many of which reduce the income subject to tax in Ireland - are at least as important to those companies that are seeking a location for their foreign direct investment. Northern Ireland cannot replicate these advantages for the reasons noted. As such tax collected in Northern Ireland will be higher than tax collected in the Republic of Ireland on identical operations.

33. As such two important conclusions can be drawn. The first is that it is wrong to claim that Ireland's growth has been solely dependent on its low tax rate. That is simply not true. Many other factors relating to tax and other issues have also been just as, if not more, important. Second, Northern Ireland cannot compete with the Republic by simply offering a 12.5% tax rate because that by itself will simply not be enough for it to create a level playing field within the island of Ireland.

34. A third important conclusion can then be drawn. If, as is the case for example for Google in Ireland, the Republic actually offers the chance to pay almost no tax at all then no tax rate that Northern Ireland can offer can out-do the offering that the Republic currently makes available. Put another way, Northern Ireland cannot compete with the Republic of Ireland on tax and win: that is just not possible.

35. The UK Treasury is introducing a number of targeted measures such as increasing SME's tax credits for R&D expenditure and a 10% rate for income from patents (Paragraph 4.86). The range of these targeted measures undermines the case for an overall reduction in the rate of CT.

Section 75 and Human Rights Considerations

36. 'Paying' for a cut in corporation Tax with a cut in the block grant can lead to one of two things: either less public spending or raising revenue from elsewhere. The first of these two options should be avoided primarily for two reasons. A reduction in public spending either directly by the public sector or through the private sector would be likely to impact more severely on the less advantaged in the community and possibly have adverse Section 75 repercussions. Recent research carried out by the Institute for Fiscal Studies on behalf of the Law Centre NI has already notified the Government and the public that the austerity measures of the UK coalition government are disproportionally affecting the poorest. Under Section 75 of the Northern Ireland Act 1998, there is a statutory requirement for Equality Impact Assessments of legislation pertinent to NI. Secondly, in the current economic circumstances it is likely to deflate more than ever consumer confidence, which will damper further domestic consumption and thereby intensify our economic difficulties.

37. A further consideration which ought to be made is the Human Rights and Equality implications of cutting CT and paying for the cut by a reduction in the block grant to Northern Ireland. The NI Human Rights Commission:

    - Draws attention to relevant human rights obligations the state has accepted, such as those under the UN International Covenant on Economic, Social and Cultural Rights (ICESCR), which are relevant to questions of human rights revenue-spending (budget) analysis;

    - Sets out its view that <u>if there were no secondary benefits</u> a cut in Corporation Tax to 12.5% would be retrogressive in human rights terms due to a significant shift (an estimated £200-300 million) in the revenue burden away from the profits of companies, which would have to be recovered through either levying additional charges or taxes in NI and/or by significant cuts to NI public spending with consequent job losses and cuts to public services.

- Draws attention to the difficulties at present in assessing accurately the short and long-term secondary impacts of a cut in Corporation Tax and the Commission's view that, given the significant risk involved to economic and social rights, the Northern Ireland administration should first satisfy itself there is a compelling evidence base of secondary benefits (additional employment with the consequent raising of living standards and tax revenues etc) before such a cut in Corporation Tax is implemented.

- Draws attention (in relation to the proposal to take forward future planning by 'establishing a high-level consultation group', which would be made up of 'representatives of the private sector' and 'others') to the social partnership model underlying the European Social Charter which, involves equal representation of employers' organisations and trade unions in the context of matters where there are competing interests and therefore diverging views.

This submission is also available on the Commission's website at: (resources/submissions to consultations/2011) http://www.nihrc.org/index.php?page=subresources&category_id=26&from=0&resources_id=146&search_content=&Itemid=61

National and international context

38. If the NI Assembly is minded to take power to set the rate of corporation tax for NI, it must also ensure that it takes powers to widen the revenue raising options open to it, so that it can take measures to compensate for the loss of revenue arising from a reduced rate of corporation tax. The targets for raising compensatory revenue should be along the lines identified by the Minister for Finance and Personnel, Sammy Wilson. According to the *Belfast Telegraph* of 10 February 2011 he wants to reduce the cost of lowering corporation tax by targeting tax breaks on firms meeting aims for investment, job creation and training.

39. This point is reinforced by paragraph 4.7 of the Treasury paper. It identifies “skills in the workforce” as one of the non-tax factors determining investment levels. There are indications that during an economic crisis companies do less training and such training as they do provide is concentrated on core competences and company specific needs to the detriment of transferable skills. It is therefore important to ensure that training is directed at upgrading transferable skills, which make the economy more competitive.

40. Returning to the Finance Minister remarks, referred to above, he said, “A flat rate reduction in corporation tax everybody gets, even companies who won't invest another penny, don't employ an extra person, don't put tuppence into R &D and don't develop markets.” In the USA it was argued that a tax holiday on foreign earnings would create jobs and generally help the economy. However an analysis of such a holiday in 2004 by a team, which included a member of the Council of Economic Advisers of George W. Bush, found that for every extra $1 of foreign profits American firms brought home, payments to shareholders went up by 60 to 92%. For businesses, which do not deliver increased research, development and innovation, more and better jobs and opportunities for upgrading skills, a cut in corporation tax would be a windfall. We are therefore opposed to the views of those like the chairperson of the Economic Advisory Group, Kate Barker, that “there would be no mechanism put in place to stop companies retaining the savings or paying them back to shareholders as dividends, rather than reinvesting in the economy”.

41. If lower corporation tax cannot be targeted as outlined by the Finance Minister, then windfalls should be subject to special taxes. For example the financial sector needs to make a fair contribution to public finances. At the moment the financial sector is exempt from VAT. In the case of Barclay's *The Economist* said in February 2011 that “Compared with its level of activity in the country (UK), the bank's tax bill looks paltry”. Consequently there should be a financial transaction tax (FTT), as advocated by the European Commission at global level. The FTT itself should be targeted at non-traditional banking.

42. Businesses outside the financial sector given windfalls should have any reliefs from business rates withdrawn unless they implement measures to improve the energy efficiency of their plant or machinery, or to combat climate change or to contribute to urban re-generation possibly through Business Improvement Districts, which have been legislated for in all other regions of the UK and in the Irish Republic. The cap on rates for expensive domestic properties could also be lifted to raise revenue.

43. The scope for varying national insurance contributions (NIC) in NI has been stymied by the announcement of the UK government that there will be a temporary holiday for new businesses for 3 years. Outside London, the East and the South East new businesses will be exempt from up to £5,000 of employer NIC for each of the first 10 employees hired. According to the Treasury paper up to 15,000 businesses in NI could benefit from this scheme. Such a targeted scheme could be more effective than an across the board cut in corporation tax, but any extension of this concession would be likely to break the EU state aid rules (paragraph 4.98).In any event it would be essential to assess the impact of the concession before extending it.

44. An "all-island economy" would undoubtedly enhance NI's economic growth rate. The advantages are detailed in the Comprehensive Study on the All-island Economy commissioned by the UK and ROI Governments. Congress stresses energy, transport, R&D and higher and further education and health as sectors contributing significantly to the performance of the NI economy. Brief comments are offered of each of these sectors in the paragraphs that follow.

45. In the energy sector an all-island market would provide both greater security of supply and more competitive prices, owing to greater economies of scale. For these reasons we support in principle the Single Electricity Market (SEM), but we have grave doubts about whether the current model can deliver the goals of better security and keener prices. We also welcome the All-island Energy Framework Programme, especially the all-island approach to energy research. The benefits of such an approach are outlined in paragraph 32 below.

46. An integrated transport infrastructure would be more efficient and cost effective and thus provide the environment for greater economic growth. For example Northern ports have the capacity for more RoRo traffic, while the Southern ports have spare capacity for LoLo traffic. These complementary capacities should be developed in mutually beneficial ways.

47. R&D is important for the all-island approach, because it would be easier to achieve the critical mass and enhance collaboration across the research community. Allied to this is the need in NI to accentuate technological education. Such a development could have particular significance for the North West of Ireland.

48. Co-operation on health on a cross-border basis would enable both jurisdictions to share the burden of specialist expertise, equipment and facilities, such as the planned cancer unit at Altnagelvin Hospital in Londonderry.

Other drivers that improve the business environment

49. To up skill our population of working age we need the assistance of more highly qualified specialists for enhanced training and development. To attract these specialists on a short stay and long stay basis we should offer them allowances to facilitate their mobility and their employers in NI should be offered employment grants or whole or partial exemption from employers' national insurance contributions. With clever marketing such a scheme could bring NI some return for the heavy investment of NI public funds in students who study for third level qualifications outside NI and who tend to deploy their acquired skills outside NI.

50. The NI Skills Strategy should be reviewed so that it realises fully the opportunities created by the type of scheme outlined in the preceding paragraph. In particular the grants or national insurance exemptions should be available for organisations, which run special programmes to raise the skills up to NVQ level 3 of employees, the unemployed and the economically inactive.

51. To realise our objective of higher paid jobs we must raise our efforts to create more research and development (R&D) activities. Therefore organisations, which engage in R & D activities or employ those with the high quality skills essential for R&D work, should be paid employment grants or given whole or partial exemption form employers' national insurance contributions. This proposal would be especially important in building up the skill base and capability in a variety of areas, such as energy research.

52. As part of the policy mix active use should be made of the EU rule which allows R & D aid to match state aid granted by a competitor outside the EU.

53. To scale up the effectiveness of the proposals set out in the preceding paragraphs there should be a system of certificates for accrediting R & D activities for the purpose of grants or other incentives. This streamlining of the scheme would increase its attractiveness, particularly for those in small and medium-sized enterprises, which can be inhibited from participating in R & D.

54. There should be more use of research foundations, possibly modelled on the North American approach. These foundations should harness the contributions not only of the universities and other higher and further education institutions, but also those of the public sector, the private sector and the trade unions. By channelling resources through foundations, tax incentives could be maximised. Consequentially the impact of every pound allocated to R & D could be boosted.

55. Some research foundations should operate on a cross-border basis in order to achieve critical mass, to promote collaboration across the research community and to take full advantage of the incentives available under EU laws and programmes. In furtherance of the last aim favourable consideration should be given to locating foundations in cross-border areas. The attractiveness to business of a single access point to the R &D capacity of the whole island should not be under-rated.

56. To ensure that the results of R & D are not left on the shelf there should be a means of delivering technology transfer. Cross-border technology transfer

partnerships should also be created to develop R & D into tradeable goods and services. Partnerships should attract a tax regime similar to that for research foundations.

57. Research and development almost always takes place in clusters e.g. in locations like Silicon Valley in the USA, around Cambridge in the East of England, Galway/Sligo in the west of Ireland. This is true of all industrial activity. They tend to cluster in this way, and this is a recognised economic phenomena. It is even why the city of London is so successful. It is not because that there is one good bank; the presence of many banks makes each bank better (the criteria that they select for assessment). There is no reason, apart from political will, that such a concentration of Research & Development could not happen in Northern Ireland.

June 2011