Dear Andrew

NORTHERN IRELAND CORPORATION TAX

You will have seen that the Government introduced and published the Corporation Tax (Northern Ireland) Bill on 8 January. Introduction of the Bill marks the end of a long period of preparatory work since the Government's 2011 consultation Rebalancing the Northern Ireland Economy.

Under our proposals, the Northern Ireland Assembly will have the power to set the corporation tax rate over most trading profits in a new Northern Ireland corporation tax regime. It does not include non-trading profits.

This new power will enable Northern Ireland, if the parties agree it is appropriate, to set a different rate of corporation tax from the rest of the UK, enabling a rebalancing the economy towards a stronger private sector, boosting employment and growth. Power over the
corporation tax base, including reliefs and allowances, will remain with the UK Parliament.

The Bill defines a set of rules on the treatment of losses, reliefs and allowances between Northern Ireland and the rest of the UK, and which activities are not covered by the Northern Ireland regime. Anticipating potential questions you may have regarding avoidance, the rules have been designed to deter businesses from seeking to exploit, through profit shifting and related techniques, any rate differential between Northern Ireland and the rest of the UK. We have also designed the regime with a strong regard to minimising additional administrative burdens on companies to ensure they can benefit as fully as possible for any decision to lower the rate in Northern Ireland.

I am aware of the particular interest your Committee has taken in the fiscal elements of devolution, including most recently for Scotland, and that you have considered the issue of Northern Ireland corporation tax in the past. As you will know, the Government’s view as set out by the Chancellor at Autumn Statement 2014 is that Northern Ireland’s particular economic circumstances mean there are strong arguments in favour of corporation tax devolution, which do not apply to other parts of the UK.

The Government has however also made clear that devolution of this power can happen provided that the Northern Ireland Executive is able to manage the financial implications. It will be for the Executive to decide what to do with the rate-setting power and how it will manage
the reduction in its budget associated with any reduction in the rate of corporation tax, and the 23 December Stormont House Agreement confirmed the need for the Executive to work to balance the Northern Ireland budget.

In common with other devolution of fiscal powers and in keeping with State aid rules, the Stormont House Agreement also confirmed that the Northern Ireland block grant will be reduced to reflect the tax revenues forgone by the UK Government as a result of devolution. The precise amount of any adjustment will of course depend on the rate at the time in Northern Ireland, as well as the UK main rate of corporation tax.

I am copying this letter to the Chancellor, Chief Secretary to the Treasury and the Secretary of State for Northern Ireland.

David Gauke MP