

Cutting Corporation Tax

A Red Herring or a Fundamental for Growth



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Northern Ireland Plc faces a critical decision on the proposal for a change in the corporation tax rate. The Northern Ireland economy faces uncertain times and significant structural changes. The cutting of Corporation Tax is seen by many in the business community as the major driver to stimulate the economy. The exponents of a cut believe it to be the quickest way to contribute to the transformation of the economy – a game changer - whereas others dismiss this approach arguing that the reduction will not create the jobs and the dividends that many expect.

The case for a cut centres on the belief that Northern Ireland should not, as Secretary of State Owen Patterson is on record as saying, “worry about a couple of hundred million” that the cut would cost in initial lost revenue. Northern Ireland could more easily be marketed as a business friendly, enterprise zone. With a corporation tax advantage, any investment project into Europe would have to look much more seriously at Northern Ireland. This view suggests that significant FDI could be enticed to Northern Ireland if there was a cut.

Lowering the corporation tax was said to be the significant driver of the Celtic Tiger economy. It was instrumental in attracting substantial additional FDI, but also as business revenues were not subject to a higher rate of taxation, local businesses reinvested in expansion, in their staff and other business resources. This increased spending had the knock on effect of benefiting smaller companies who serviced the local market and this spread across many sectors.

Supporters of the cut back the call for the devolving of

corporation tax powers to the NI Assembly, citing that this would allow NI businesses to “Invest, grow and create more employment”. However Finance Minister Sammy Wilson has publicly described the Treasury’s plans for devolving taxation powers as “a rip-off”, if the block grant would be reduced by around £300m.

The argument against the cut can be just as compelling. The viewpoint of the TUC who dismiss the argument is that cutting corporation tax in Northern Ireland would not create jobs but a loophole for businesses to exploit. TUC general secretary Brendan Barber was quoted as saying, “Our economy needs greater tax revenues to reduce the deficit, more investment to create jobs and growth, and a move away from the speculative boom that caused a global financial crash - and complete meltdown in Ireland’s economy. Yet turning Northern Ireland into a tax haven would do exactly the opposite”.

Supporters of the status quo would also argue that such measures would also compel a similar response from the rest of the UK, particularly the assemblies of Scotland and Wales, which would nullify the perceived benefits from FDI. And the longevity of investment must also be questioned. Large corporations can do business anywhere in the world and business can flow to regions that offer the best overall package.

American computer giant, Dell, a once shining example of an FDI investment that created thousands of high value jobs, moved its operations from the ROI market with a 12.5% corporation tax rate to Poland with a 19% corporation tax rate. Perhaps they were more concerned with skills availability and other factors? We need FDI to come here because of the quality of the workforce, the skills and work ethic, a favourable employment legislative environment which we do not currently have, and ideally a tax advantage. And the debate aside, if the Assembly here decide a rate cut is the way forward, we are still at the mercy of the Exchequer as to whether it will become a reality.

It is clear there are many arguments as you will see when you look at the wide range of perspectives on Clarendon Executive’s Knowledge Network LinkedIN Group. Our view, while supporters of a rate cut, would be that the collective range of benefits on offer is every bit as important as the “all eggs in one basket” approach as some consider a corporation tax cut is the single magic bullet and the only thing that matters. Others have very strong views and make compelling arguments

We believe the debate needs to be aired and thus Clarendon Executive has partnered with Queen’s University to facilitate an informed and structured and interactive debate between business leaders and influencers and will shortly be arranging “The Big Debate” at Queen’s University.



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If you have an interest in this area and would like to register for participation information on this event or to attend please contact Clarendon Executive via enquiries@clarendonexecutive.com or via the “Clarendon Knowledge Network” LinkedIN Group.