UK Autumn Statement commits to devolution of Corporation Tax to Northern Ireland

The long awaited confirmation of the intention to devolve corporate tax rate powers to the Northern Ireland Assembly was announced in the UK’s 2014 Autumn Statement. The Chancellor has committed to devolve powers in the current Parliament, provided certain conditions are met.

If granted, it is likely to be seen as a positive development by Northern Ireland’s business community. The proposal is seen as a method of strengthening the ability to compete for foreign direct investment and, therefore, drive transformational private sector growth. It will also provide local businesses with a greater ability to reinvest in their own activities and into the local economy.

Northern Ireland is unique in the UK in that it shares a land border with another country. One of the key reasons put forward for granting the power to the local Assembly is to provide Northern Ireland with the ability to reduce the corporation tax rate (currently 21%) to a rate which is closer to or matching the 12.5% rate in Ireland.

Under current EU rules, the quid pro quo is that any reduction in corporation tax receipts as a result of the measure must be matched by a reduction in the block grant from central government. If powers are devolved, an important aspect of any transition in corporation tax rates will be aligning the cost to Northern Ireland of the reduced rate with the expected upturn in additional corporate activity.

Conversely, it has been recommended that there should also be a mechanism to allow Northern Ireland to obtain a financial benefit where HM Treasury receives additional tax revenue from increased economic activity. The extent to which this is possible is yet to be determined.
Next Steps

Talks are ongoing at the Northern Ireland Assembly to resolve a number of local issues, including agreement to budgets for 2015/16 and putting the Northern Ireland Executive's finances on a sustainable footing for the future. Indications are that the Government will introduce legislation that will pave the way for the devolution of corporation tax powers in this Parliament, subject to satisfactory progress in those current cross-party talks and the Northern Ireland Executive's ability to demonstrate how they will manage the financial implications of these devolved powers.

For additional information with respect to this Alert, please contact the following:

Ernst & Young LLP (UK), Belfast, Northern Ireland
- Michael Hall +44 28 9044 3523 mhall@uk.ey.com
- Rob Heron +44 28 9044 3558 rheron@uk.ey.com
- Neville Crowe +44 28 9044 3610 ncrowe@uk.ey.com
- Neil Kelly +44 28 9044 3614 nkelly3@uk.ey.com

Ernst & Young LLP, UK Tax Desk, New York
- Matthew Newnes +1 212 773 5185 matthew.newnes@ey.com
- Sarah Churton +1 212 773 5994 sarah.churton@ey.com
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2014 EYGM Limited.
All Rights Reserved.

EYG No. CM4971

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com