

Written Ministerial Statement

The Varney review of tax policy in Northern Ireland

The Chief Secretary to the Treasury (Rt hon Andy Burnham):

Following representations by political parties in Northern Ireland, the Government commissioned Sir David Varney in March 2007 to carry out a review of tax policy in Northern Ireland. His terms of reference were to examine “how current and future tax policy, including the tax changes announced in the Budget 2007, can support the sustainable growth of businesses and long term investment in Northern Ireland”. The review has been published today and has been deposited in the Library of the House.

I am very grateful to Sir David Varney and his team, and to all those who submitted evidence to the Review. Sir David’s report provides a valuable assessment not only of business tax issues for Northern Ireland but also of how the opportunities and challenges facing the devolved administration in developing an investment strategy might best be approached. The Government is fully committed to supporting the Northern Ireland Executive in implementing such a strategy.

The Government recognises that, in developing its economic investment strategy, the question of business tax levels in the UK is a particularly important issue for the Executive. I am therefore particularly grateful to Sir David and his team for the considerable depth in which this issue is analysed and explored in the report.

He concludes that a policy of a preferential corporation tax rate for Northern Ireland, as compared to the rest of the UK, does not offer the best way forward for building a strong investment strategy for

Northern Ireland. He is not convinced that a cut would represent good value for money. In particular, the role of supply side factors needed to be paid due attention, and caution taken on the responsiveness of investment to a cut in the rate.

The Review examines the tax position in Northern Ireland, in both its international context and in comparison with the Republic of Ireland. It finds that the UK compares favourably with its G7 partners in terms of corporate tax levels. It also finds that the UK has a lower rate of tax than the Republic in areas such as VAT and the top rate of income tax, and offers more generous R and D tax credits and tax relief on dividends.

The Review recommends a strategy to develop private sector investment in Northern Ireland based on maximising the benefits of the competitive advantages that already exist in Northern Ireland, including current financial investment incentives, and realising the potential further to improve this competitive advantage.

The report notes that for many years the Northern Ireland economy has been over reliant on public sector investment for its growth but that political progress over the last ten years to end conflict and to transform Northern Ireland to a peaceful, stable society has already helped attract inward private sector investment. The restoration of devolution on 8 May is a major turning point and incentive for such further inward investment.

The report identifies Northern Ireland's key competitive advantages as including:

- Operating costs which are highly competitive and significantly lower than in the rest of the UK and the Republic of Ireland
- A well developed telecoms infrastructure providing important benefits for business
- One of the youngest populations in Europe and high educational achievements
- Attractive financial incentives, recruitment and training, research and development and other development support tailored to each company's needs.

The report recommends that these advantages can be maximised by a strategy to:

- Further improve basic and technical skills and retaining the best and the brightest
- Tackle the size of the public sector and efficiency of the administration
- Foster innovation through better university and business collaborations; and
- Prioritise trade and investment promotion across government, including working links between Invest Northern Ireland, the Irish Investment and Development Agency and UK Trade and Investment.

In short, Sir David Varney's report found that the conditions for economic success for Northern Ireland are more than a matter of

tax incentives. There are lessons in terms of improving labour force participation, basic skills, and efficiency and organisation in the public sector; and Northern Ireland needs to move towards the execution of a strategy focussed on business and economic development.

In the light of Sir David Varney's report, the Government is working with the Executive to:

- strengthen trade and investment promotion by UK Trade and Investment reviewing with Invest Northern Ireland the scope for better marketing of Northern Ireland to higher value-added FDI; and
- promote closer working between the UK Government, the Northern Ireland Executive and the Irish Government to promote a coherent overall science strategy, including considering the suggestion of creating 'science cities'.

This will build on the May 2007 settlement, elements of which specifically focus on issues highlighted in the review as key to a sound and forward looking investment strategy:

- an innovation fund focusing particularly on leveraging in private sector investment and promoting collaborative research. This includes matched funding of £36m from the Irish Government targeted specifically on collaborative research and development;
- a new Northern Ireland corporate tax office to promote the competitive tax position
- a local employment partnership - that will help create 5,000 jobs for the unemployed in Northern Ireland -

between five leading employers in the retail sector.

The expansion of this initiative to other sectors, including security, hospitality and facilities management, offers the Northern Ireland Executive further opportunity to work with employers to maximise the opportunities for those in Northern Ireland who are inactive or unemployed

- a major conference in Northern Ireland for prospective investors from the USA, led by the Executive and fully supported by the Government.

The Northern Ireland Executive has put growing the economy at the top of its priorities. This is reflected in the draft Programme for Government which was published on 25 October 2007, along with a draft Investment Strategy and draft Budget for 2008-2011. I welcome the strategy that this Programme sets for building economic success to benefit all communities in Northern Ireland, including the good progress that is being made towards the planned US inward investment conference next year.

I have discussed the report and next steps with the Executive and I am today announcing that Sir David Varney has agreed to carry out a further review building on his first review and focusing on identifying policies and incentives for strengthening and sustaining private sector growth, investment and employment in Northern Ireland.

Against that background and the desire of the UK Government and Northern Ireland Executive to work in partnership to create the conditions for sustained economic growth and increased

employment opportunities for all, the terms of reference for the second review are:

"In the light of Sir David Varney's review of Tax Policy in Northern Ireland, published on 17 December and the Northern Ireland Executive's draft Programme for Government and draft Budget published in October 2007, Sir David Varney will undertake a second review. Building on Sir David's earlier analysis and agreement from all parties about the unique circumstances of Northern Ireland (in relation to the opportunities provided by the peace process, the need to strengthen the private sector, to create increased employment opportunities and to reform the public sector) this review will explore in more detail how to expand the private sector and to enhance Northern Ireland's competitiveness. In this context, the review will look at incentives for supporting the sustainable growth of businesses, investment and employment in Northern Ireland and the implications for reducing the historic dependency on the public sector. This will include examination of incentives for growth in Northern Ireland that fall within the responsibility of the Northern Ireland Executive and the UK Government. Sir David will aim to report in good time for the US Investment Conference. He will be supported by a small secretariat and will receive direct and regular input from Northern Ireland Executive officials."

HM Treasury

17 December 2007