MOORE STEPHENS

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Reduced NI corporation tax rate

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As part of the Stormont agreement announced on 17 November 2015, the British and Irish governments and Northern Ireland's two largest parties have resolved to introduce a 12.5% rate of corporation tax in Northern Ireland from April 2018.

The announcement has been widely welcomed and represents 10 years of campaigning by the Northern Ireland Executive and regional business community to help Northern Ireland move towards sustained widespread economic growth.

It had long been argued that Northern Ireland suffered a detrimental economic effect due to sharing a land border with the Republic of Ireland, which offers one of the lowest mainstream corporation tax rates in the world. The phenomenon of the 'Celtic Tiger' and the continuance of Ireland as a headquarters base for many global firms (including, most notably, Apple and Google) through the economic crisis had not gone unnoticed. Against this backdrop, Northern Ireland businesses have felt difficulties competing on a local and global scale with their southern neighbours. The UK government recognised this and took steps to equalise the position by affording the Northern Ireland Executive autonomy to set its own corporation tax rate.

Earlier this year, the Corporation Tax (Northern Ireland) Act 2015 received Royal Assent giving the Northern Ireland Assembly the power to set its own separate rate of corporation tax on "Northern Ireland profits" (as defined) of a company.

The legislation devolved corporation tax powers to the Northern Ireland Executive, so that Northern Ireland is in the position to set a different rate of corporation tax in respect of certain trading profits to that in the rest of the United Kingdom. Now, following the agreement reached at Stormont, the Northern Ireland rate will be 12.5% from 2018.

The legislation distinguishes between small and medium-sized enterprises (SMEs) and large enterprises, with the former being able to apply the so-called 'Northern Ireland tax rate' to all of their profits provided that a substantial proportion of the company's employee time and costs arise in Northern Ireland.

If the company does not meet the prescribed conditions, its profits will continue to be taxed at the main rate of UK corporation tax. The position differs for large enterprises, in that only profits attributable to a Northern Ireland trading presence will be able to qualify for the reduced Northern Ireland rate. In essence, the rules for large corporates apply the internationally recognised principles of attributing profits to permanent establishments.

Against the backdrop of the OECD's Base Erosion and Profit Shifting (BEPS) initiative, the rules appear to ensure the prevention of abuse by companies seeking to establish 'brass plates' in the province. Accordingly, only genuine trading profits arising in Northern Ireland will be afforded the special rate, and it is hoped that this will encourage foreign investment and the creation of new jobs in the province. In addition, it is hoped that the reduced rate will enable smaller local firms to access a greater proportion of their profits for expansion.

The main rate of corporation tax in the rest of the United Kingdom became 20% with effect from 1 April 2015, with the planned reduction to 18% by 2020.

In addition to the aforementioned benefits for established companies, the reduced corporation tax rate for NI may incentivise many unincorporated businesses to incorporate. Although the regime for taxing dividends from April 2016 is making the extraction of funds from companies less tax efficient than in previous years, the reduction in the corporation tax rate is likely to tip the balance in favour of incorporation once again.

We at Moore Stephens welcome these developments as a great result for our clients and indeed the province as a whole, and look forward to a much-needed period of economic growth in Northern Ireland.

If you would like to discuss this matter further, please contact your usual adviser or:

Suzanne O'Hara, Tax Consultant

T +44 (0)28 7035 2171

E sohara@msca.co.uk