

Northern Ireland Affairs Committee

Oral evidence: [Promoting the tourism industry in Northern Ireland through the tax system](#), HC 50

Wednesday 18 January 2017

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[Watch the meeting](#)

Members present: Mr Laurence Robertson (Chair); Tom Blenkinsop; Mr Gregory Campbell; Lady Hermon; Kate Hoey; Danny Kinahan; Dr Alasdair McDonnell; Nigel Mills; Jim Shannon.

Questions 354 - 414

Witnesses

[I](#): Jane Ellison MP, Financial Secretary to the Treasury; Mike Cunningham, Deputy Director, VAT and Excise, HM Treasury; David Willis, Deputy Director, Devolution, HM Treasury.

Written evidence from witnesses:

– [HM Treasury \(January 2016\)](#)

Examination of witnesses

Witnesses: Jane Ellison MP, Mike Cunningham and David Willis.

Q354 **Chair:** Minister, colleagues, thank you very much for joining us. It might be useful if you start by introducing your colleagues.

Jane Ellison: I will ask Mike and David to introduce themselves.

Mike Cunningham: I am Mike Cunningham. I am a deputy director at the Treasury. I am responsible for VAT and excise issues.

David Willis: I am David Willis, also a deputy director, responsible for devolved spending.

Q355 **Chair:** Thank you very much. As you know, we are looking into promoting the tourism industry in Northern Ireland through the tax system. This is almost certainly going to be our last evidence session on this issue. I suppose it originally arose because of the comparison with the tax situation in the Republic of Ireland, particularly, although not exclusively, affecting the border areas in Northern Ireland. We were looking into it a while ago. Since then, things have moved on a little bit with regards to Brexit, and it is good to have you before us so we can perhaps exchange views and ask questions. Thank you very much for coming.

Jane Ellison: It is a pleasure.

Chair: Would you like to make any opening statement to begin with?

Jane Ellison: No, I am happy just to go into questions and discussion with the Committee. As you say, some of the issues are about the here and now, and I am sure some of your questions and concerns are about what evolves as we leave the EU.

Q356 **Chair:** Going back a few years, when I first became Chairman of this Committee, one of the issues we looked at was corporation tax; the difference between the UK rate, which has come down quite a bit since, and the Republic of Ireland rate; and the relative disadvantage that that put Northern Ireland at. For tourism, looking at the different rates of VAT, particularly in the Republic, we see again a disadvantage. We also have concerns about the level of air passenger duty, because Northern Ireland is a fairly difficult place to get to without flying. Do you have any initial thoughts on that? Does that form part of your discussions in the Treasury team?

Jane Ellison: Let me make a general comment about public spending and the approach we are trying to take. It very much echoes the approach the Chancellor laid out at the Autumn Statement. In our assessment, although the economy has been growing strongly in recent years and recovering well from the crash, and indeed has outperformed



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most expectations since the referendum, it is clear to us that we cannot be complacent about what lies ahead. There is clearly turbulence in a whole range of different economic indicators.

We will move beyond the EU potentially into some sort of implementation phase of the agreement that is struck. There are also, as the OBR laid out in its long-term forecast this week, some significant long-term pressures. There are things we can do to mitigate and respond to those pressures, but it is quite obvious that we face some challenges, particularly to certain parts of public services.

The position that the Chancellor laid out in the Autumn Statement is that, if we spend money, we need to spend money in a way that will definitely have an impact on the long-term growth and health of the economy; and, if we are going to borrow money, it really must be for those productive purposes, with an eye to the long term. You saw that, at the Autumn Statement, the new spending commitments we made were all funded by revenue-raising measures, with the exception of the national productivity investment fund, where we said that we would borrow.

That was essentially the Chancellor laying out the perspective, which is: things that we spend in the short term, we need to raise revenue against, because we are trying to return the economy to long-term health; we are trying to pay down the debt, because we believe that that is the best position from which to withstand whatever circumstances the future might throw at us. We will potentially borrow to invest if it is in something that we know will be long-term productive.

That brings me round to answering your question directly. We keep all taxes under review at a stage when we can change them; there are some constraints while we are in the EU. We need to be really convinced and have compelling evidence that there is an economic reason to do it and that it is a better use of funds than spending money on something else, for example on infrastructure. Looking at what was announced in the Autumn Statement, there is a significant gain for Northern Ireland in its share of that national productivity investment fund. We think that is a good use, investing for the medium and long term, of public money.

Q357 Chair: Do you have many discussions with the Ministers from Northern Ireland about the situation there, about tourism or about any other issues with regards to taxation?

Jane Ellison: I have not personally, but the Chief Secretary to the Treasury has regular meetings. I do not know if David wants to comment on that, because his team will be supporting the Chief Secretary. There are very regular discussions. I know this issue is raised.

David Willis: The Chief Secretary met with all the devolved Finance Ministers as part of the Finance Ministers' quadrilateral in the run-up to the Autumn Statement. He separately had two meetings with Máirtín Ó Muilleoir, the Northern Ireland Finance Minister. There is regular



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dialogue, between both officials and Ministers, on a range of issues relating to finance.

Q358 **Chair:** As far as you are able to tell us, what concerns have they expressed?

David Willis: For example, at the Finance Ministers' quadrilateral, there was a discussion about the nature of EU guarantees that were being provided by the Treasury. There was no specific discussion on VAT and tourism, but there have been a couple of substantive technical discussions on the devolution of corporation tax, which was the subject of the two bilateral meetings.

Q359 **Lady Hermon:** It is very good indeed to see you here this morning, Minister, with your officials. Thank you very much. In advance of the meeting, HM Treasury submitted written evidence. Can I quote and ask you about paragraph 1? I am not going to go through all of it, but could I start with paragraph 1? "Normal VAT rules do not allow the application of different VAT rates in different regions of the UK". Who sets the normal VAT rules? What are the normal VAT rules?

Mike Cunningham: In essence, the normal VAT rules in the UK are first and foremost set by the European directive.

Lady Hermon: Correct.

Mike Cunningham: That sets out what the rules should be. The directive is also subject to the EU treaties. The UK then implements it in its legislation.

Q360 **Lady Hermon:** Thank you. That is what I expected you to say. When we exit the European Union, we were told by the Prime Minister yesterday, repeated by the Secretary of State for Brexit yesterday in the Chamber, that all the European law will become part of UK law and then this Parliament will pick and choose the bits that it wants to repeal and the bits that it wants to retain. At that point, what is preventing the UK Government from having different rates of VAT, for the benefit of Northern Ireland and other regions?

Jane Ellison: I will just comment first, and perhaps Mike wants to come back in. That is a fair challenge and you are right. We are not hiding behind that and saying, "We are constrained in what we might be able to do in the future". The reason I said what I said about the way that we need to make economic choices, at the moment and for the foreseeable future, was simply to lay out the fact that, if we had further freedoms, we would still need to set sensible parameters as to why we made particular choices. Those parameters would broadly be about making sure we are spending money where we know it can be most productive.

You are right; there may well be more freedoms. We do not yet know the final shape of agreements. There are a lot of imponderables about the next couple of years, but it is likely that we will have an environment



where those rules might be different. It would not alter the overall challenge, which is to make sure that, wherever we reduce taxes or spend public money, we are doing so in a way that we judge to be the best, given that that money is always competing with other claims and other pressures.

Q361 **Lady Hermon:** Sorry, Minister, I did not mean to interrupt you, but could you confirm that, when the UK exits the EU, the British Government will be free to set different rates of VAT for Northern Ireland?

Mike Cunningham: It might be worth mentioning that the other factor here is the OECD VAT/GST guidelines for international trade, which set the standard for VAT and GST globally. One aspect of that is taxation at destination. Another is the concept of neutrality. Within their guidelines on neutrality, they set out the kind of things that jurisdictions should take into account when applying VAT in a jurisdiction. One of them is about treating similar things in similar fashions. There is an argument that, in terms of guidelines, they suggest that a jurisdiction should have similar rules applying across the jurisdiction. There are other hurdles.

Jane Ellison: These are the issues that we will be working through in the next few years, in all these different areas. Where we have one set of arrangements at the moment, we need to work through what the new set of arrangements will be, and that will be in the context of different sets of international obligations. There was a lot of discussion yesterday of new trade deals and new arrangements, but with these new trade deals and new sets of arrangements come new mutual obligations and new understandings of how we will behave. At this moment, we might be moving beyond one situation, but as Mike has just illustrated there are always restraints on what we can do.

Q362 **Lady Hermon:** Yes, but our inquiry is focusing on VAT rates in Northern Ireland. That part of the United Kingdom, Northern Ireland, is at a distinct disadvantage when it shares a land frontier with another EU member state—the only part of the UK that does—and the Republic of Ireland has a much lower rate of VAT. Going forward, what do the British Government intend to do to assist the tourist industry in Northern Ireland in terms of VAT, when they have the freedom to do so and there is the differential with the Republic of Ireland?

Jane Ellison: I have two brief comments, and then I will ask Mike to perhaps comment again. First, the rate of VAT is not the only thing to consider in the mix of how you create a benign climate for small businesses or large businesses. For example, the VAT registration threshold for similar businesses in the tourism industry in the Republic of Ireland is much lower. In other words, you can be a bigger business in the UK before you have to register for VAT, so there is a competitive advantage there for Northern Ireland.

Equally, you might make decisions around different things, like business rates. We have just brought forward and confirmed at the Autumn



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Statement the biggest ever package of business rate reform for different parts of the UK. There are choices that you can make around that, depending on what your powers are in terms of devolution, etc. There are other things. The business environment is not determined just by the rate of VAT, although I take the point that you made. I would just say that there are other choices you can make.

Looking at the performance of the tourism sector in Northern Ireland, it is very good indeed. It has been a strong performance in the last year and over recent years, and all credit to the people who have contributed to that, but it goes to illustrate that there is a mix of factors involved.

Mike Cunningham: There are some very important points there, not least of which is that, even under the current EU directive, individual member states have a reasonable amount of freedom on rate setting in terms of the things that rates apply to. There is a certain amount of freedom with regard to reduced rates and what the level would be. There is a certain amount of freedom in terms of the standard rates as well, because member states are only restricted to a minimum of 15%, but the standard rate of VAT in countries differs quite markedly.

The other thing to add is that, in the UK, we also apply quite a few zero rates. When we are talking about tourist activity, tourists also benefit quite markedly from some of the specific UK zero rates. To give an example, we apply a zero rate to all passenger transport, to air transport, including domestic flights, and to things like books, periodicals and magazines. In those senses, there are already things that we do that benefit tourism across the piece. As the Minister said, we have a very high VAT registration threshold.

Jane Ellison: The highest in the EU.

Mike Cunningham: Exactly. We also do things like incentivise museums and cultural visits by allowing a recovery of VAT by certain institutions that allow free entry. There is quite a lot in that space.

Lady Hermon: Throughout the United Kingdom?

Mike Cunningham: Throughout the United Kingdom.

Q363 **Lady Hermon:** That brings me to my last question for this moment. I was particularly struck, in the very lengthy time that the Brexit Secretary spent in the Chamber yesterday—and he was very good and very enthusiastic about his job—by something he said about Northern Ireland. I am quoting here from Hansard, from column 811. This is the Secretary of State for Brexit: “Since the beginning of this process”, since he took up his post, “we”, meaning the Government, “have put the preservation of the stability and the interests of Northern Ireland pretty much at the top of the tree of the negotiations, particularly on issues such as maintaining an open border and preserving the economic basis of Northern Ireland”. Would you just give me one example of how the Treasury has put



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Northern Ireland and its economy “at top of the tree”, to quote the Brexit Secretary, since the beginning of the negotiations?

Jane Ellison: The Prime Minister in her speech yesterday talked about the common travel area, for example.

Q364 **Lady Hermon:** Which means what, Minister?

Jane Ellison: She said it was one of the priorities for going forward in terms of our negotiation.

Q365 **Lady Hermon:** Yes, but what does that mean?

Jane Ellison: That will be discussed and unpacked further, I am sure, in the coming weeks and months, but it was laid out as a key priority.

Q366 **Lady Hermon:** Yes, but with the greatest respect, Minister, for those of us who live in Northern Ireland, for many hundreds of people, for the significant number of farms that straddle the border and the significant number of businesses in Northern Ireland that depend on migrant labour, yesterday’s speech by the Prime Minister did not shed any light on that, nor on the details of the improvement to the common travel area. We just need to flesh out some of these things.

Jane Ellison: David, do you want to comment, because you have been in some of the discussions with devolved Ministers?

David Willis: In terms of the common travel area, there is no more than what the Prime Minister said in her speech yesterday in terms of the intention. As the Minister said, exactly how that works in terms of protecting the integrity of the UK’s immigration system will need to be worked out. There has been quite significant engagement with the Northern Ireland Executive, as well as the devolved Administrations, through the Joint Ministerial Committee and a subcommittee of it, set up by the Prime Minister and chaired by David Davis, which will be meeting this week, which serves the purpose of ensuring that the devolved Administrations’ views are taken on board as the UK prepares its negotiating position.

Q367 **Lady Hermon:** Following on from what the Brexit Secretary said, in terms of the engagement that, as you spelled out to the Committee, you have had with the Finance Minister—and there have been ongoing discussions—how has HM Treasury fed into those discussions the priority that the Brexit Secretary told the House about yesterday: that Northern Ireland and its economy are somewhere at the top of the tree in the negotiations? How is that reflected in the negotiations with the Finance Minister? How do you think that came across to Máirtín Ó Muilleoir?

Jane Ellison: We have not begun the negotiations yet. What was made clear by the Prime Minister yesterday was the priority she sets on the examples she gave. This is the beginning of a process; it is a very detailed one. You have already heard that my ministerial colleague, the Chief Secretary, has regular meetings and regular engagement. This is



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the beginning of a process. It is not an endpoint, and therefore we are open to all these discussions. We want to hear from Ministers from all devolved Administrations about what their priorities are. We have been in constant dialogue. Your question would be easier to answer at the end or part of the way through, because as far as I am concerned we are engaging very openly, very warmly and very constructively.

Q368 Lady Hermon: I do not doubt that for a moment, Minister. As I say, I sat for the entire statement yesterday, which was very interesting. I will just quote again what the Brexit Secretary said, "Since the beginning of this process"—since his appointment as the Brexit Secretary—"we have put the preservation of the stability and the interests of Northern Ireland pretty much at the top of the tree". He has indicated the Government have put that as—

Jane Ellison: Lady Hermon, you are at an advantage over me because you were there and I was not. The best thing, to make sure you get a quality answer, is for me to ask my colleagues at the Department for Exiting the EU to write to the Committee and flesh out that answer, if there is anything to add to what the Secretary of State said to you in the Chamber.

Lady Hermon: Lovely. I would appreciate that very much. Thank you.

Q369 Mr Campbell: Tax evasion, particularly around the border in Northern Ireland with the Republic, has been an issue for many years, for obvious reasons. When the Republic and Northern Ireland were both in the EU, it was still a problem, but in terms of EU business and those who wanted to circumvent rules, there were ways of containing it, I presume through good relationships with the Irish Republic's revenue authorities. Post-Brexit, what are the relationships now and over the course of the next two or three years going to be like, to deal with that issue?

Jane Ellison: I will ask Mike to comment on it in more detail, but you are right. Tax evasion is a problem in any situation. We clearly want to bear down on it and have had a good deal of success broadly, as the United Kingdom, in doing that in recent years. We are aware of some of the particular sensitivities in terms of cross-border activity over decades. Perhaps, Mike, you want to comment on particular relationships with other authorities and how we build on them.

Mike Cunningham: Within the EU, there are some very defined practices for exchange of information and for talking about things like tax avoidance, but it is not the only forum for that. The OECD, for instance, is another body that looks at these things. It also seems to me that, under any circumstance, both the UK and Ireland would be worried and concerned about avoidance in any situation anyway and that a dialogue between countries will always continue.

Q370 Mr Campbell: Avoidance or evasion?

Mike Cunningham: Both.



Mr Campbell: Tax avoidance is legal. Tax evasion is not.

Mike Cunningham: Yes, although, again, it comes down to definitions. The European Commission measures the tax gaps of all 28 member states, and avoidance is part of the measurement of the tax gap of a member state, as is evasion. Treasuries bear down on all types of behaviours that they think they should be bearing down on, and jurisdictions have conversations about those. In the EU, there are ways in which you can do that very easily, because it is organised to do it, but I know we also have conversations with other countries through the likes of the OECD. All those things would continue. With the VAT gaps, for instance, that the 28 member states currently have, it will be a priority of most exchequers to bear down on those VAT gaps, and so they will do what they need to do to make that happen.

Jane Ellison: It is worth perhaps noting that I did not hear the Prime Minister's speech because we were in Treasury oral questions when it began, but I have read it and she particularly stresses this: "Our response"—this is in relation to common security threats—"cannot be to co-operate with one another less, but to work together more. I therefore want our future relationship with the European Union to include practical arrangements on matters of law enforcement and the sharing of intelligence material". That would apply just as much and particularly to tax evasion activities that might fund illegal activity or whatever.

We have made it clear that that remains a priority, and there is no reason to think that we cannot continue to co-operate well. There are long-established relationships that we will work hard to maintain. That phrase of the Prime Minister's—"practical arrangements"—could not be more relevant than the one place where we will share a land border with the EU in the future.

Q371 **Mr Campbell:** In recent years in Northern Ireland, particularly in border areas, there is a concern that criminal gangs or former paramilitaries are active in terms of fuel smuggling, money laundering and other capabilities that they have developed. There is a concern that insufficient action has been taken in that area. There is then a further concern that, when you add the post-Brexit position into the mix, that may be exacerbated. What I am really trying to get at is what preparation HM Revenue is taking in advance of the next two to two and a half years.

Jane Ellison: Let me make a couple of comments. First, we would encourage anyone with evidence or concerns about that sort of thing to speak to HMRC, and it will listen to and act on them. That is the first thing I want to say. If people have evidence of particular aspects of tax evasion, they should please draw it to our attention, because we have had good success over recent years in bearing down on some of this.

I am particularly aware of the fuel issue as a sensitivity. We can go into more detail if you want, but my understanding is that we are very encouraged by recent monitoring of the use of the fuel duty marker. We



were discussing this only yesterday. The evaluation reports that HMRC has produced indicate that things are going in the right direction there and it feels that there is an overall shift away from illicit laundering. I am happy to write to the Committee with more detail on that, but that is quite a recent assessment of the use of the new Accutrace marker. Again, I can write if that is of interest.

Q372 Mr Campbell: That would be useful, because my view is that we need to be very vigilant in the course of the next two to three years.

Jane Ellison: We are well aware of that, but the key thing is that people speak to HMRC if they have concerns and evidence. We are monitoring the fuel issue particularly closely and I will write with more detail.

Q373 Nigel Mills: The main thrust of this inquiry about the impact on tourists has been around whether a reduced rate of VAT on at least hotels and maybe restaurants bills would be a way of boosting tourism in Northern Ireland and probably other regions of the UK. In terms of a reduced rate on those items, is that still not something the Government are really prepared to look at in any great detail?

Jane Ellison: I would honestly say that, within the bounds of what we can do legally, we will look at the evidence for anything. When we say we keep all tax under review, we really mean it, because we would be foolish to say we know what is going to happen in the future. Tax has always been a member state competence, so we have retained a lot of power over most aspects of tax throughout our membership of the EU. We will always look at evidence.

As I said in my opening remarks about the general economic climate going forward, we just need to have evidence that any money that we spend—and associated reliefs on VAT in a big part of the economy like hotels would be expensive—will not be “dead weight” money and we are not spending money on something that would happen anyway. As I say, the sector looks to have performed pretty well recently.

We get a lot of bids for VAT. We totted up that we have had bids amounting to about £30 billion since the referendum, which is about a quarter of what we project to collect in VAT this year. Basically, if we said yes to all the bids we have had just since the vote, that is what would come off. I say that to illustrate to the Committee that this is not the only area in which people are making the case to vary rates. That is a lot of money, so the question the Chancellor would be asking me then is, “Where else are you going to find £30 billion from to pay for the public services that we all value so much around the United Kingdom, and block grant and everything else?” That is the context in which we operate, but we will always look at evidence.

I do not know how recently the campaign around cutting VAT on tourism submitted evidence. Our sense is that perhaps we have not seen any very recent evidence. We are very happy for people to either send that



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in or, if they want a meeting with officials, to talk the Treasury through the evidence they have, but the key thing is that there has to be evidence that this will stimulate activity that would not otherwise happen and that would make a sustainable impact on the economy of Northern Ireland.

Q374 Nigel Mills: Directly to that point, in Northern Ireland, there is a particular shortage of hotel accommodation. We have evidence from various travel companies saying that, if there was more capacity and perhaps a slightly better price because there was more capacity, yes, there would be demand for tourists who currently go to Dublin and do not stay in Northern Ireland, who perhaps just pop in to do the Giant's Causeway and go back, to actually stay. We need to find some way of incentivising that infrastructure to be built.

One way of doing that would be to say, "Look, for a certain period, we will help you out by having a lower VAT rate on that". You would be getting more income, because there would be rooms built that would be there for a long time and people would be staying who currently are not staying or spending. I suspect the same analysis would apply in other parts of the United Kingdom. The issue is that that analysis probably does not apply in London, which has very high occupancy rates and reducing the rate, other than helping a few tourists spend a bit less, probably would not have much economic advantage to it.

Once we have left the EU, are the Government going to be more inclined to look at how we can better use our tax system to incentivise investment away from London and the south-east, which perhaps do not need that to attract it, but other areas do?

Jane Ellison: It is a perfectly fair point, but you have just described pretty much what the Chancellor outlined as the purpose of the national productivity investment fund, of which £250 million will go to the Northern Ireland Executive's capital budget. There are things, such as investing in hotel capacity, that the Northern Ireland Executive can look at with regards to that money as a means to boost productivity and promote regional growth. That is what it is there for, and we would encourage them to look at that imaginatively and think how they can use that money.

Your argument is that there is an interaction with the VAT system, but investing in the infrastructure is critical. The reason that one of the parts of that infrastructure productivity fund was specifically linked to infrastructure that facilitated, in that case, housebuilding is because an awful lot of places will say that you can build houses or, arguably, hotels, but what makes them viable is whether they are connected to the right places, whether you have the right road system or a train station nearby. That is why the only place where we borrowed in the Autumn Statement was to invest in those things that unlock other economic opportunity. I would encourage the Northern Ireland Executive to look at how they



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spend that money. This Committee, I know, will be showing a huge interest in how that £250 million is spent.

- Q375 **Nigel Mills:** Say the Northern Ireland Executive came back and said, "We would like to use some of that budget to reduce VAT on hotels and other tourist activity, so we can bring in large private investment, which would really boost the economy". Is that something you would be willing to consider, at least in theory, giving them the power to do?

Jane Ellison: I am going to ask Mike to comment, but I would just note that the money was given to their capital budget.

Mike Cunningham: Just to reinforce the point, at the moment there are legal constraints on that and we will not know what the future holds, so even if they came and said that now we would say, "We are still tied to the directive and we cannot give you that".

Nigel Mills: We assume from what we were told yesterday that we will not be tied to those directives.

Mike Cunningham: Then it rather depends on what the substance of any agreement, and other international agreements that might be out there, looks like, so it is not clear-cut at this stage. It is very difficult to second guess where we might be in two to two and a half years' time.

- Q376 **Nigel Mills:** It will look slightly odd to people that we managed to devolve corporation tax, not paid by individuals or tourists. We managed to devolve income tax, and yet a tax that has a direct impact on spending in this way is the one that we still would not consider devolving in any situation.

Mike Cunningham: In some sense, there is a complexity with VAT that is not there with corporation tax, which is the way the tax operates, the fact that it is a transaction-based tax and all businesses are part and parcel of the tax collection mechanism. Therefore, there are complexities involved in that.

As soon as you start talking about differences in regions, you are talking about a much more complex system for businesses that operate in that system, because in principle businesses are supposed to be VAT neutral in most respects. The exceptions are things like exemptions or where businesses are involved in non-business activity. Businesses are not supposed to be taxed, per se. It is the consumers who pay it. The complexity of the VAT system means that, if you do things differently, you potentially add a lot of burdens on businesses.

Jane Ellison: Going back to my point about the mix of things that make for a healthy business environment, the message you get overwhelmingly from businesses of all sizes is: where you can reduce complexity or not add to it, we would encourage you to do so. There is always an offset: in doing something that might be sensible and attractive, you have to ask yourself whether the means by which you execute it are too complex. I



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meet businesses that say of a relief that has been introduced in the past, "We never claimed it, because even though there was money available the amount of effort and time it took to claim it was not worth it". You always have to offset these things.

Q377 Nigel Mills: I guess I could counter that by saying I am not sure the way income tax or corporation tax have been devolved has greatly added to the simplicity of those two taxes. I suspect a business operating in Northern Ireland, if the corporation tax rate reduction does come in, will face some complexity in trying to work out exactly what of their income is at what rate now. VAT has clear principles. It is paid where the consumer is at the time of the transaction, which is geographically quite straightforward, at least.

I was just hoping the Government would say, "When we have this new flexibility, it is something that we are prepared to think about and see if we can make fly, in the way we spent many years trying to work out how we could make corporation tax devolvable". I guess that would be the principle.

Mr Cunningham, I was a little surprised at you citing the OECD's work as another reason why we could not do this, even once the main reason has probably lapsed. Perhaps you can write to us and set out which particular paragraphs of that work bring you to that conclusion, because I thought its role was looking at how to make VAT work across borders, not within a country.

Mike Cunningham: That is exactly right, but when it sets out rules on neutrality it makes the point that these are jurisdictional rules as well, so in essence it is saying that, although the guidelines are addressing cross-border transactions as much as anything else, the point it raises about neutrality is evident both in domestic and in cross-border situations.

Nigel Mills: The US has 50 states, some of which do not have sales tax, and they all have different rates and apply them differently. Surely the OECD is not saying that the US needs to move to a uniform sales tax across every state.

Mike Cunningham: The guidelines do not apply to the US sales tax, so that US sales tax is not within the scope of the VAT/GST guidelines.

Q378 Nigel Mills: It is not unusual around the world for different areas of a country to have different VAT rates and some exemptions, is it? I presume it is not saying all those things now have to go; otherwise you are not complying.

Mike Cunningham: Indeed. The OECD cannot set law and the OECD guidelines are guidelines, so it is setting a direction of travel, and countries sign up to a direction of travel. The OECD has no enforcement, so it does not say to jurisdictions, "You must do this now". It sets a vision for the future, and the countries that sign up to that say that it is a



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vision they will look to adhere to. At the last Global Forum on VAT, which involved over 100 countries, over 100 countries were prepared to sign up to that particular direction of travel, so it is quite weighty in that sense. It is something of great value in terms of guidelines.

Q379 **Kate Hoey:** Presumably we could un-sign from it, if we wanted to and there was political will.

Mike Cunningham: In principle, but even the signing-up is a consensus. Basically, the OECD looks to form consensus, and that is what we sign up to. The OECD will never turn around to a jurisdiction and say, "If you do this in this particular way and do not change, then we will come down and somehow enforce that", because it has no power to do so. It is not a legal instrument.

Jane Ellison: It is worth noting that we play a very constructive role within the OECD and, in some areas, like the work on international tax evasion, the UK has been one of the leading lights on things like the BEPS project. We take our responsibilities and leadership role in those fora very seriously.

Q380 **Kate Hoey:** No one is suggesting that we do not. What I was trying to imply was that, if we really wanted to do that, we could.

Jane Ellison: I hope—or at least I am trying to get this across—that running through the thread of the evidence I am giving the Committee is not that we are in any way hiding behind a rule here or there that says we cannot do X. You are right that ultimately, particularly when we leave the EU, there will be many more decisions that the country can make for itself, but what will remain a constant is the pressure to raise revenue in order to be able to afford public spending. I am definitely not hiding behind rules and saying our hands are tied.

I am saying that the money we spend and the money any part of the United Kingdom spends needs to be spent in the knowledge that it is money we are not spending on something else and it is revenue we would otherwise have to raise. That is the context for everything going forward and, particularly as we enter an inevitably more uncertain period, it is better to be cautious than not and certainly to not make commitments to a post-EU situation that we have not yet negotiated.

Chair: That is fair enough.

Q381 **Jim Shannon:** Minister, it is nice to see you in a new role and we look forward to working with you. As other members of the Committee have indicated to you, tourism for us in Northern Ireland is so vital and so very important. In the last year, tourism visitors from the mainland UK hit an all-time high; tourism figures from the Republic of Ireland dropped 18% below the figure of the year before. Even with the peace process and so on, those coming across the border I do not feel are coming in the numbers that they once did, but they are also not spending the money. Quite clearly, that indicates to me and to this Committee that there is an



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imbalance that has to be addressed.

Other members have forcibly and very genuinely put forward the point that we need to have the tourism VAT level in Northern Ireland looked at in a conciliatory way. How do we incentivise those who, in particular, come from the United States of America over to the Republic of Ireland for their holidays, as they do, in greater numbers? With our Ulster-Scots history and all, there is no reason why we should not be trying to entice those people forward.

Where it is a devolved matter, DETI—the Department of Enterprise, Trade and Investment—is very clearly trying to incentivise those visitors, in conjunction with Tourism Ireland, and to bring them forward to the north of Ireland, but that is not happening. We come back to the figure and back to the question. I say very respectfully to you, as Minister, that, if we do not have an incentive and a VAT reduction at least in line with the Republic of Ireland, they have an unfair advantage, and we have to address that issue. That dramatic decrease in visitors from the Republic of Ireland on the year before—some 18%—cannot be ignored. It is almost a fifth less than what we had.

How do we get that level playing field? The only way we can do that is by addressing the VAT tourism figure of 9% that the Republic of Ireland has. When it comes to making those decisions and making a special case, I know the Minister responsible, Simon Hamilton, through his Department in Northern Ireland, has put the case forward. I was just wondering what discussions have taken place with his Department and what we need to do to make it happen.

Jane Ellison: Let me make a brief general comment and then I will ask David to comment a little more on the interactions with Ministers from Northern Ireland. If everything else was equal and there were no constraints on what you could do, I would be asking myself how I can be absolutely sure that VAT is the only component part of driving the change in behaviour that you have described, Jim. I guess the Committee has satisfied itself that that is the only component of that change in behaviour—

Chair: Not yet.

Jane Ellison: I do not know, Chairman, if the Committee is going to write up a report of its inquiry; I know this inquiry has been working for quite a long time. If the conclusion is that all the other explanations are not the case, then that is one thing, but I have not yet seen compelling evidence that VAT alone is a factor. It seems to me that decisions like that, which affect tourist behaviour, are quite complex and there might be other component parts of that.

At the risk of being a bit boring, I go back to the point that you have to have compelling evidence, before you spend quite a large amount of money—and it would be a large amount of money—that that would basically do the trick. You have to have evidence that that is the thing



driving the change and you have isolated all the other factors. I am not yet convinced I have seen that and I am not sure that we are convinced we have seen it, but, as I said earlier to the Committee, we are happy to look at the evidence. It would be interesting for us to see that anyway and to understand it.

There are other factors that affect these things, and it is important to be clear about what they are before making any decisions. As I say, if all other things were equal, that is the question I would be asking myself, and regularly do, when people come to us with bids for spending money, reducing taxes or introducing another exemption. Let me just bring David in to comment on the discussions we have had.

David Willis: The focus of the Committee here has been on a specific lever, which is the competence of the UK Government, with regard to VAT, but it is important to remember that tourism is a devolved responsibility, as you have made clear, and it is the responsibility of Simon Hamilton's Department to think about the variety of other levers at his disposal. As the Minister said, through the Autumn Statement significant additional funding on the capital side was given to the Northern Ireland Executive, to spend on whatever the Northern Ireland Executive decide their priorities should be, which might well include infrastructure that would support tourism.

It is important to look across the piece at the levers available to Government. In this case, the vast majority of the levers rest in the Northern Ireland Executive's hands. I am afraid I do not know, but it may well be the case that Simon Hamilton has had discussions with Ministers with the same responsibilities across the devolved Administrations and the UK Government, to explore what can be learnt in terms of promoting tourism across the United Kingdom.

Jim Shannon: You are right, Minister, to look for the compelling evidence, and so you should.

Jane Ellison: Not me.

Jim Shannon: I understand—from the Department's point of view.

Jane Ellison: If that was your decision as a Minister, that would be the thought process you would go through. In this case, as David has said, that would be Simon Hamilton's.

Q382 **Jim Shannon:** I have an opportunity—at least, I have had for the last five years and will have this year—to attend an event in Milwaukee in the States, Irish Fest, as a guest speaker from a Unionist point of view, to give the balance to that particular event. The reason why it is interesting to me is because Tourism Ireland has a stand there. Approximately 120,000 people attend that particular event. Tourism Ireland—and I cannot be critical of them at all—clearly try to make sure that people who come to the Republic of Ireland also come to Northern Ireland, so there is



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integration.

This year, I am not sure whether the value of the pound against the dollar may make a difference, and perhaps it will not be as critical a factor, but I believe that, in those Americans we have coming to Ireland and Northern Ireland for their holidays, there is a lot of Ulster-Scots blood and, in our world, a pound—or a dollar—is a prisoner. Therefore, they do base their holiday on what they can spend.

For those in the Republic of Ireland, you can stay in your hotel in Dublin; you can go north on the bus, do all the visiting and come back to Dublin again. That is a purely financial equation and that is part of the evidence. I just want to say that there is evidence there, and this Committee will perhaps gather that evidence and bring it together. I believe there is a case to look at in relation to how we can incentivise the holidays, and VAT is one way of doing that.

Jane Ellison: I was going to ask Mike to comment, but as David said an awful lot of the levers are, for the most part, in the hands of the relevant Minister in the Northern Ireland Executive. I take your point about the wider VAT challenge.

Mike Cunningham: Because you will be looking at all the evidence, it is probably worth looking at the Deloitte report, which looked at what impact the reduced rate in the Irish Republic has on tourism. My reading is that they find that the evidence is not so crystal clear. On the one hand, the Minister is quite right to say that, if we were doing something like that, we would want to be clear that the evidence showed us that there would be a real benefit, but the thing to look at is to see what the evidence is from the Irish Republic experience. It is definitely worth looking at the Deloitte report, because they have looked at the impact of the reduced rate in the Irish Republic.

Q383 **Jim Shannon:** In relation to the passenger connection between Belfast International Airport and the USA, and New York in particular, and the EU decision to stop that, even though the Northern Ireland Assembly wishes to continue, can I ask, Minister, from your point of view, what discussions you have had or your Department has had with the Northern Ireland Assembly in relation to that? Whenever we trigger Article 50 and leave the EU, is it possible at that early stage, or do we have to wait until the very end, to renew that, if the Northern Ireland Assembly was of an opinion to continue to subsidise and support it? I just want to ask a general question.

Jane Ellison: It is worth noting, from the point of view of air passenger duty, which was a previous ask, that long haul was devolved in 2012. That flight was not subject to any long-haul APD. I would have thought that was a commercial decision, but I do not know if David wants to comment further.

Kate Hoey: It was a mixture of things. One of them was the EU factor, but that was only one factor, as I understand it.



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Q384 **Chair:** Just going back to Mr Cunningham, the view in the Republic of Ireland is that reducing the tax rate helped them enormously. I do not know if Deloitte recognises that fully or not, but the view we got from the tourist board down there—not in formal evidence, but in a meeting—was that it helped them hugely.

Mike Cunningham: It is common with a lot of these things that you get different views from different aspects, so we see quite a lot of this where certain aspects are argued on the one side, and then you get quite a contrary view on the other side. The important thing here is, from our perspective, it is worth looking at what Deloitte did because they were asked to assess it.

Q385 **Lady Hermon:** What was the date of the Deloitte report?

Mike Cunningham: We can provide the link. It is relatively recent. We will make sure we provide the link.

Jane Ellison: It is also worth noting that, in my relatively brief experience as the tax Minister, most people say that they welcome a tax cut and that it has been nothing but good news for them.

Chair: I am sure they do.

Jane Ellison: The number of people coming through my door with ideas for cutting tax greatly outnumbers the number of people coming in with revenue-raising ideas.

Chair: We are not surprised at that. Thank you very much.

Q386 **Danny Kinahan:** Thank you, Minister, for coming today. Belfast International Airport is in my constituency, so APD is a key matter. Have you been lobbied at all? Was APD on Mr Willis's list when you were discussing with people? Did they raise it with you in the Executive?

Jane Ellison: I am not sure that we have had a formal approach about short-haul APD.

David Willis: I do not think there has been any formal approach from the Executive on the matter.

Q387 **Danny Kinahan:** The airport told me that 2 million passengers are lost to going down to Ireland. I note that the Minister, Mervyn Storey, when he gave evidence, spoke about long-haul APD. We do not have many long-haul flights. Almost all our flights are short haul, and therefore absolutely vital to not just helping tourists, because he said he did not want to subsidise tourism, but we need to bring in businessmen, particularly small and medium ones, to expand. Has anyone looked at how it can help small parts of the United Kingdom? We seem to be sitting in a place where the Executive does not want it, but at the same time you have given us the mechanism. Is anyone leading the way to show them how much benefit it can have to a part of the United Kingdom?



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Jane Ellison: I will make a brief comment. There is a lot, for want of a better word, of lobbying activity on APD. Pretty recently, ahead of the Autumn Statement, I met a series of representatives of the airline industry and some of the airlines to have a conversation with them. Subsequently we received quite detailed evidence from some of them, and that is something that we have looked at. When I say we keep tax under review, I mean it. We have a very open relationship with key stakeholders in particular areas and always look at the evidence they provide.

APD has raised about £3 billion a year for the exchequer—a not insubstantial amount. Returning to my point, if we reduce APD, we have to raise money somewhere else. It is also worth noting that APD is the principal way in which the aviation industry contributes to public revenue-raising, because we do not have VAT on seats and fuel. That is the principal way that part of the economy contributes.

Mike Cunningham: It is probably worth saying that there have been some changes in the UK. In Budget 2014, rates were cut on the longest haul flights and children were exempted. In 2016, short-haul APD was frozen for the fifth year running. There have been concessions, and those amount to something like £300 million tax savings altogether. This, rightly, is an area we keep under review. It is quite complex, because it rather depends on the relationship of an airport to its region. It is a complex issue. It is one of those things that we will no doubt come back to from time to time, because we will need to look at it as things develop in the UK.

Jane Ellison: It is something we look at pretty regularly because, as Mike says, there are a number of challenges coming down the line in terms of the interaction between regional airports, devolved parts of the UK and other things like that. Scotland has indicated some plans that raise other issues. It is an area we keep under pretty active review. We are happy to look at evidence that people supply.

Q388 **Danny Kinahan:** I will try to find that for you. Yesterday there was an all-party group set up on aviation, which touched on airfields, but that leads to the larger airports. I had pushed in the past to have an enterprise zone around Belfast International Airport, because you have the hub there already. It has planning permission on 100 acres. To allow other things to happen in and around airfields and elsewhere, are we looking at incentives that can create business and help airfields and airports expand, because it is getting harder and harder? An airline will not want to come in and will use APD as its reason for not being there. It is about trying to help all airfields. Are we looking at ways of helping them?

Jane Ellison: I will make a general comment again. The aviation sector has performed strongly. To go back to the point I made in relation to VAT and tourism, these things are never about a single factor. The aviation sector has performed strongly and, in terms of big picture things



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that the Government have committed to to support the sector, the expansion of a major airport in the south-east was a major ask of the industry and we have committed to that.

That is not germane to your specific question around Belfast, but hopefully evidences the fact that the Government take the sector very seriously and are looking to support it. Mike has mentioned some of the exemptions. The creation of an enterprise zone, I believe, is a matter for the Northern Ireland Executive and the Minister there.

David Willis: Economic development is a devolved issue, so would be a matter for the Northern Ireland Executive.

Q389 **Danny Kinahan:** Coming at it both ways, I want you to put pressure on them to offer another enterprise zone, because at the moment we are stuck with one that is not yet happening and we do not necessarily have a Stormont there to put it in place, which slows it up.

There are two other things I wanted to ask. To follow on from Jim Shannon's comment, one story we get all the time is that everyone flies into Dublin because that is the bigger and better airport. They go north to the Titanic, Causeway or *Game of Thrones* and then straight back across the border for all sorts of reasons.

We lose massive income, and therefore you lose a lot of tax income coming through in different ways. I wanted to back him on that. It is vital. We will try to get you the evidence, but we need help, and therefore I ask Mr Willis to make sure that is on the table when you are talking to the Executive in the future.

Jane Ellison: We engage constructively with all the points that Ministers from Northern Ireland bring to us. We have very good official level relationships. The key thing is to really try to understand what drives those economic decisions so we can address the right part of it. When you are facing all the pressures I described earlier, the worst thing you can do is to spend an awful lot of money, whether you are me or the devolved Administration Minister, and discover you are not addressing the right bit of the challenge. Not so much just evidence, but understanding what drives decision-making, on the part of tourists, people moving between the borders and others, is absolutely key. Many of the powers to address those issues already rest with the devolved Administration.

Q390 **Danny Kinahan:** We always get a little irritated by "devolve and forget". Yes, it is lovely being devolved and having our own Government, but we must make sure we work both ways as a Union, helping each other, so you raise issues and matters just as much as the Executive.

Jane Ellison: Absolutely. It happens that, within the Treasury, it is the Chief Secretary who has the regular meetings, but they are taken very seriously and the relationship at official level is very close and constructive. We are happy to talk about anything. I suppose I am, at



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the risk of being boring, explaining the thought process we will go through, not just with someone from the Northern Ireland Executive or anywhere else, but with everyone.

Q391 Danny Kinahan: I have one little thing. You just said you are happy to talk about anything. I get lobbied by a certain company in Northern Ireland about VAT on toasties. You had it on pasties. The request is that you look at tidying it up, because it seems illogical that you are heating up one type of food—a pasty—and not charging VAT, and at the same time heating something up as a toasty and charging VAT. It just seems illogical, yet it is a tiny little point in the whole thing.

Jane Ellison: I am tempted to say that, if hot food is raised, any Treasury Minister should leave the room immediately. Mike, do you want to comment with trepidation?

Chair: There are some inconsistencies being alleged about the proposed sugar tax as well.

Mike Cunningham: Indeed. The food zero rate is a complex one, and the borderlines between the zero rate and the standard rate are very complex. In part, this is because we are in the EU and our zero rate is a standstill zero rate. It was agreed as part of our accession, so we cannot introduce new things into the zero rate. We can get rid of the zero rate, but people are not very keen on doing that. We cannot flex it in the way that we might like to.

Jane Ellison: This goes to the heart of the extensive debates we had about the tampon tax, through the course of the passage of the last Finance Bill.

Q392 Chair: Before we come back to APD, which we will want to do in a minute, you have quite rightly said you have to weigh up the evidence: how will the economy benefit from reducing tax? How do you assess that? There have been consistent reductions, quite rightly, in my view, in corporation tax, so the Government believe a lower rate will attract more business and generate more income in the medium to longer term. Is that a regular process you go through with pretty well all taxes?

Jane Ellison: It is a process we go through. We need to do more of it, if I am honest. There are things—exemptions and reliefs—that we have done in the past, in some cases the dim and distant past, which we have not routinely gone back to. The Office of Tax Simplification has done some really good work on this. They produced a report in around 2011, which showed a whole slew of reliefs and exemptions that were still on the statute book but had long since lost their historical relevance. There was one for black beer and various other things, some of them a bit exotic. As part of the proper budget-making process, we need to do more of this and look at the evidence.

Sometimes there is a judgment involved. Context is important, in terms of our major competitors and where they are at. It is not always exactly



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black and white. One of the things we are doing at the moment, as you would expect, since the referendum vote is that Ministers in a range of Departments are having lots of conversations with businesses about the things that drive their decisions: where they invest, where they bring their headquarters and all those things. Those conversations tend to illustrate that it is very rarely a binary decision with just one factor. There is a blend of them, whether it is access to talent, ease of travel, time zone or the language in which their business mostly operates internationally. There is always a range of factors.

Evidence from real businesses about their decision-making process is important and we encourage people to come and talk to us. That goes, relevant to this discussion, to major tourism operators. We listen and take a lot of evidence directly from businesses about what drives their decision-making.

Q393 Kate Hoey: Just to go back a little bit on APD, I welcome the fact that you say that you look at this regularly, or I think you used the words “from time to time”. As you know, our previous Committee had the report that recommended that we abolish APD or reduce it on all direct flights from Great Britain into Northern Ireland. Can you explain, perhaps, Mr Cunningham, the Highlands and Islands way it works, in terms of flights going out to some of the remote islands? Are they allowed to have a reduction in APD?

Mike Cunningham: I am not sure about that.

Chair: There is a public service obligation.

Q394 Kate Hoey: We were told that there was something that, because we were in the EU, we could not do within Great Britain, particularly Northern Ireland. Looking ahead to the time when we are no longer in the EU, will that make it much easier? After all, it is not so easy to get a train to Northern Ireland. You can go to any other part of the United Kingdom, apart from the islands, by train.

Jane Ellison: Of course, although the competition in recent years on short-haul routes has been pretty fierce and has driven some very competitive pricing.

Q395 Kate Hoey: Are you going to look again, when we leave the EU, at being able to reduce APD completely?

Jane Ellison: We look at all the major taxes on a regular basis generally, as a normal part of building up and preparing for major fiscal events. I have been in the Treasury only since July, but I had a meeting with industry representatives and we have taken very up-to-date evidence from some of them in terms of their case for reducing APD. I would reiterate my point that APD is the principal contribution that the aviation industry makes to our revenue-raising, because a number of aspects of it are VAT exempt.



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As if by magic, on the Highlands and Islands, a few Scottish flights that are not commercially viable receive APD exemption. That is quite relevant to my point about the fact that there is considerable commercial competition in the routes between other parts of the UK and Northern Ireland.

Q396 Kate Hoey: As a Minister in the United Kingdom Government, does it not concern you that, because of the particular situation of Northern Ireland, so many people go and fly out of Dublin, which is great for Dublin but not so good for Mr Kinahan's airport or City Airport, simply because it is going to be a lot cheaper? Therefore, another country gets the benefit of that, which we do not, because most people then go to Dublin first, come up for their visit, go back again and spend their money in the Republic.

Jane Ellison: I am happy to look at the evidence that it is APD alone that drives that decision-making.

Q397 Dr McDonnell: Thank you very much, Minister, for your very eloquent presentation and that of your staff. I would want to fall back a little and put this in context, because there is always a risk that, when we talk about issues like VAT in this place, we perhaps think in terms of the south of England or, indeed, the south-east of England. Tourism in Northern Ireland is still in a relatively primitive place. For 30 years, we had a very difficult and turbulent part of our history, and tourism was scarce. As it evolves, we currently have a short season, largely June, July and August and maybe a little bit of a shoulder in May and September.

The point people make about VAT is that nobody can guarantee that, if you reduce VAT, it will suddenly be a panacea for all ills. The difficulty we have is that the Irish Republic has various products geographically, or various areas within it, that have had a strong tourist industry for 60, 70 or 80 years. There was a tendency during the turbulent part of our history even for our own people, whether for social reasons or for weddings and such events, to move across the border—a lot of them to escape the Troubles, if you like. In effect, there is a psychological conditioning there that says it is useful to go to Donegal or Dublin. A habit was formed during difficult times.

To some extent, tourism suppliers are trying to reverse that trend. VAT reduction would be seen as a useful tool, but you should not go away from here with the impression that we are saying, "Reduce VAT and we will all live happily ever after", because we are working against a traumatic period in our history and all the rest.

The problem we have is that there is a perception that Northern Ireland, when it comes to accommodation, when it comes to various things, is expensive; in fact, it is not. It is probably not that expensive and, in some cases, may not even be as expensive as the Irish Republic, but there is a perception. That is what this argument is about. How do we throw in a game-changer that will send a message? We really need large-scale American tour operators, largely, or European tour operators,



which are sending busloads into Dublin, Cork, Kerry and places like that, to say, "I will have to overnight people. I will have to start putting people up overnight in Northern Ireland."

The problem we have is the hen and the egg, the chicken and the egg or whatever you want to call it. We do not have the critical mass to cope with big events, when they come. It is in that context, so I would be keen that you view it in that context, as—I will not call it "primitive", as it may be unkind—at a very early stage in development. It is not like Scotland; it is not even like Wales. It is not at that stage of flow.

The difficulty we have is that those in the hospitality industry are very cautious, because of the short season and because there are so many inhibitory actors. We need more beds, but in order to get more beds somebody has to invest. When somebody does their sums, VAT may be only a little bit at the end of the equation; it may be only the last 5%, but that can be the difference between making 2% of a profit or 2% of a loss.

Chair: Is there a question coming?

Dr McDonnell: Chair, it is important.

Jane Ellison: It is an important point.

Chair: It is important to give the background, absolutely.

Dr McDonnell: Forgive me, Chair. I do not normally speak this long.

Chair: I would dispute that. It is always worth listening to. Let us have a question, though.

Q398 **Dr McDonnell:** I am very reserved; others ask longer questions. The point I want to make, if I can come to it, is about the cost of the VAT. The Treasury suggests that there would be a £10 billion loss if we cut VAT to 5%. The campaign to cut VAT would question that and say, perhaps, that the loss would be much less and you are not taking into the equation the economic upsurge of the benefit, the suck-in effect of extra business. How do you arrive at the £10 billion figure? Have you thought of the broader issues?

Jane Ellison: Let me make a couple of comments in response, Dr McDonnell, to your general points. Then I will ask David to come in on the issue of powers and where the levers lie, and ask Mike to come in on that latter point.

First, I completely understand what you are saying about the background to the situation we are discussing. I am sure it is the case that everyone in the United Kingdom has taken great pleasure and pride in the development of the Northern Irish economy over recent years, and in particular the growth in the tourist trade. That is something we would all want to see continue for obvious reasons.

The second point you have just illustrated is the complexity of the situation. There is quite a lot of complexity in the decisions people make and the reasons why things have evolved as they have. It is not simple,



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and the fact that the Republic of Ireland's tourist trade has developed in one way and Northern Ireland's has developed in another is due to a range of factors—many of them, as you say, historic and well known.

The third point I would make, which I am going to ask David to say more about, is that many of the levers lie in the hands, rightly, of the Northern Ireland Executive and the Ministers there. We would encourage them to use them. There has been the recent settlement of the share of the national productivity investment fund. I accept the point that VAT might not be one of them, but they can raise any topic they want in the bilaterals they have with Ministers here. We would always encourage people to talk to us about all the issues they think are barriers to economic development. It is still the case that, if you are going to spend money on one thing, you have to make sure you can raise revenue in another way.

In terms of investment in infrastructure to support long-term, sustainable tourism in this instance, there is a substantial amount of money in the most recent Autumn Statement. I would question whether that sort of big-picture infrastructure spending would need to come from a different source and whether it is really the case that the VAT rate is the best route to look for that sort of investment.

Let me ask David to say a word about devolved powers.

David Willis: Clearly, our main relationship with the Northern Ireland Executive is with the Department of Finance.

Dr McDonnell: And our brilliant Finance Minister, yes.

David Willis: Yes, Máirtín Ó Muilleoir. Some of the issues you have raised in terms of the development of the tourism industry and capacity in Northern Ireland are held by Ministers in other places in the Executive. We could explore with colleagues in DCMS to see what conversation and information exchange is happening between DCMS and its counterparts.

Jane Ellison: That is a very good point. There might be conversations that other Government Departments are having that we are not necessarily party to in the Treasury.

David Willis: I am very happy to go and find that out.

Jane Ellison: There was a technical point.

Mike Cunningham: Yes, in terms of the £10 billion a year and how we arrived at the figure. It is probably worth saying how that is split, because that is useful. Essentially, HMRC do a lot of the work here, because they are the ones with all the information and they provide that to us. They have costed the cost of a reduced rate for restaurants, which comes out at around £7 billion, and a reduced rate for accommodation and attractions, which comes out at around £3 billion. That is the make-up.



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Where does the £10 billion come from? Of course, it is from the whole of the UK. It is not testing against a particular region; it is a UK-wide figure. Of course, it is not just about tourists either. The point about any kind of reduced rate here is that it does not just benefit tourists; it is there for everybody. It has to apply to all restaurants and it has to apply to anybody eating in a restaurant, for example.

Why are the figures different? Well, the Cut Tourism VAT campaign has made quite a few assumptions about what may or may not happen, including things like pass-through of costs, which we cannot validate. If we were making a change to something like this, we would have to do quite a lot of work and go through the OBR process to satisfy them that we had got our sums right.

As the Minister has already said, we would be fine meeting the Cut Tourism VAT campaign again at some point, because I suspect the figures we have are older figures. They used some older rates—for instance, assumptions on what the VAT gap was—which is rather lower now than they had assumed it was at the time. We are happy to work through those. However, the bottom line from the Treasury's perspective is that it is a big figure. That is the basis that we would have to work on

For any mitigation to that figure, we would have to go through the OBR process to show we had reasonable evidence from industry and others to say, for example, that X amount of costs would be absorbed or passed on to consumers, which is all very complex. Quite a lot of work would need to be done.

Jane Ellison: It is a good point. Thank you, Mike, for reminding me. You asked me earlier about how we take evidence and, of course, we have this external validation for the numbers we present at fiscal events, which is different to before the OBR was in existence. It set a pretty stringent bar for validating our figures.

Equally, we have to ask similarly stringent questions of people coming in to make a bid for a tax cut or whatever, because, in due course, when we present that at a budget or statement, it has to pass the same bar, effectively.

Q399 **Dr McDonnell:** On a more general point, in an earlier stage, Minister, you made reference to the economy being healthier in the last few months than was perhaps expected. Is that not just a windfall because of the weaker pound?

Jane Ellison: In terms of the UK economy, consumption has been better and consumer behaviour has been more buoyant than we would have perhaps expected. The Chancellor noted yesterday, however, in Treasury oral questions, that the saving ratio was changing slightly in the last quarter for which we have figures, but the view of most external commentators, and our view, would be that consumption activity has been surprisingly buoyant. There are some statistics out there that



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would give us cause for concern. You cannot just explain that by currency fluctuation, but there is sufficient reason for us to be cautious about the years ahead, because there are so many known unknowns.

No, there has been some quite genuinely robust consumer behaviour. A lot of businesses have, very sensibly, said, "We are not going to make immediate decisions. We are going to wait and see how the shape of things stacks up." Big businesses, in particular, cannot turn on a sixpence and make those sorts of decisions.

We have not been inactive in this process. Ministers across the Government—I am sure this is true for the devolved Administrations as well—have been extremely active in engaging with business leaders to say, "We have your interests at heart as we work through the process of leaving the EU. As we begin the negotiation process, we want to understand the key things driving your decision-making." They have sought to give reassurance. The Prime Minister started her speech yesterday—they were the first of her 12 principles—with clarity and certainty.

That is the overwhelming message we have had from businesses right across the United Kingdom over the last few months. "We accept there is going to be change, but, as much as possible, please give us some degree of certainty about those things you do control", hence the Chancellor re-committing to the business tax roadmap at the Autumn Statement, "and when key decisions will be made", hence the references the Prime Minister made yesterday to avoiding cliff edges

Those have been top of the list for businesses big and small, because they accept there is going to be some change and a degree of uncertainty, but that is what they have asked us to do most: to try to flag the road ahead in the areas where we possibly can.

Q400 Tom Blenkinsop: Yesterday, the ONS figures came out in relation to inflation, at 1.6%. It said the main issues behind that were producers passing on costs to consumers. Those areas were in air fares, food prices and fuel prices. Northern Ireland is already exposed in terms of its border with another EU nation in the context of Brexit. The ONS said that input prices went up 15.8% in December, which was up from 13.3% in November. Is the Treasury keeping a keen eye on this, assessing it and its implications for Northern Ireland, particularly tourism but also agriculture? These input costs are going to create problems.

Jane Ellison: Absolutely. These are all the factors we are looking at incredibly closely. As you say, the jump of inflation from one month to the next was fairly substantial, certainly by recent standards. These are all things that are being looked at very closely. Earlier on in my evidence to the Committee, I said there are lots of moving parts at the moment. These are important component parts of the overall economic picture, which the Chancellor will have more to say about at the spring Budget on 8 March.



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Tom Blenkinsop: Given that prices for the United Kingdom are increasing and that, potentially, mechanisms are there for the Treasury to look at easing the burden on the member states of the United Kingdom and their fiscal situation, can you explain to me why another EU state, beholden to the same EU rules, the Republic of Ireland, can reduce its VAT rate to 9%, but we cannot?

Jane Ellison: The first point in terms of how we respond to that is that the Chancellor will have more to say at the Budget.

Mike Cunningham: It is worth saying that the tax mix in every country is very different. In the end, it is about matching taxation to spending and working through the numbers. Jurisdictions make choices. As I said before, there is quite a lot of scope within European law on rates, within a framework. There are limitations; there is a framework there. Member states are free to make choices within that framework. We have made certain choices in the UK; they will have made certain choices.

Q401 **Tom Blenkinsop:** Indeed we can. In 2008-09, the then Government reduced VAT from 17.5% to 15%. In fact, that Government, for their entire tenure of 13 years, did not increase VAT at all. They actually reduced it temporarily to 15%. According to the IFS, the tax yield that year was £78.4 billion, which was more than 2006-07, when it was at 17.5%, and more than 2005-06, when it was 17.5%. It was more than in 2010-11, when it was 20%—it was increased by the then new coalition Government—and the yield was £73.4 billion.

A lower rate temporarily created a greater yield. Now, the latest figures from the IFS in 2013-14 say the yield was £87.7 billion at 20%. There are instances, obviously with other mitigating factors, that show that you can increase the yield with a lower VAT rate. Has that been investigated at all?

Mike Cunningham: It is something we have looked at before. You are probably aware that the UK had a temporary reduction in the VAT rate some years ago, for reasons of stimulating the economy. We know it put more money into the economy at the time. It is one of the levers Governments can use, and we have done it before. Currently, of course, we are running at—

Q402 **Tom Blenkinsop:** It was while we were in the EU and under EU rules, of course, that the country did that.

Mike Cunningham: There is quite a lot of complexity in the EU frameworks. We are free to set a standard VAT rate. We can only have one standard VAT rate, but we can set it at any level above 15%. We are not particularly high as regards the overall VAT rates of member states. Quite a few are considerably higher than the 20% we have.

Jane Ellison: Our VAT registration threshold, for example, is the highest in the EU. We have not come this morning and said, "Our hands are tied. If only we could do this, we would." We have been pretty straight with



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the Committee in saying that there are some flexibilities now, and there may be more in the future, but the same overall fiscal challenge will present itself. We justify the choices we make.

Q403 Tom Blenkinsop: Minister, the reason why I raised it is that everyone has suggestions about reducing tax. Here is one way you could potentially reduce tax and investigate whether it would increase yield, in terms of revenue.

Jane Ellison: You are right to say that the issue of what I think I am right to call the yield-optimisation point of any tax is one that would generally be regularly looked at in the context of a range of the major fiscal levers. It is a relevant question to ask.

Q404 Chair: Given the evidence Tom has presented, though, what was behind the decision to increase it?

Mike Cunningham: It was always designed to be a temporary reduction in the UK, in order to boost spending at that point. It was flagged, early on, that it would be a temporary reduction and the VAT rate would go back up. That is why it boosted expenditure, because, as you would imagine, lots of people decided to buy lots of the things they might buy during that period, so it boosted expenditure.

Jane Ellison: It brought expenditure forward, probably.

Mike Cunningham: Yes.

Jane Ellison: We project that the 2016-17 yield for VAT will be £128 billion. It is a very substantial part of the public finances. Therefore, decisions to bring in less have to be offset elsewhere by a high degree of certainty—this applies to any tax—that we are going to get more economic activity as a result, or another exceptional reason. It is money that pays for vital public services.

Q405 Chair: If I can just pursue this, a decision was taken to boost spending temporarily, but that would not have continued in the medium to long term, would it?

Jane Ellison: I cannot talk to that time at all, obviously.

Mike Cunningham: Nor can I. All I know is that there was a temporary reduction; there was a boost to spending during that period of time; and there was a commitment to return to a higher standard rate, and that happened.

Q406 Tom Blenkinsop: That is why I read out the figures from the IFS. The IFS states that in 2006-07, when VAT was 17.5%, the yield was less than in 2008-09, when there was a temporary reduction. When it goes up to 20%, after 2011-12, the increase in yield is minimal. Only after a prolonged period of time does it pick up. There is obvious evidence that when there is a temporary reduction there is a kick-start there and no loss in yield; in fact, there is an increase. Maybe that is something to



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look at.

Mike Cunningham: It is worth saying that there would be a lot of factors in play there. Again, you cannot just take the figure and assume it is all due to the temporary reduction.

Q407 **Tom Blenkinsop:** I am not assuming anything. I am just looking at the rates and the yield.

Mike Cunningham: No, but there may be other factors in play there. It is quite a complex picture.

Jane Ellison: I cannot really add anything to that. It is hard enough answering for the Government I am part of, let alone one I was not part of.

Q408 **Tom Blenkinsop:** What I am trying to get across is that it is worth looking at as a potential measure, in terms of the questions that are being asked today by the Committee in relation to the tourism industry and the obvious information we have gathered from talking to the Northern Irish tourism industry.

Jane Ellison: We have been very open to say that the campaign group that is advancing this and, indeed, the Committee are extremely welcome to submit the evidence. I give you my undertaking that it will be looked at seriously, as all these things are. We are interested in anything that will boost economic activity at the same time as retaining the tax yield to pay for public services.

We are very open to look at it. Through the course of my evidence, I have tried to explain that money we do not raise in one area we have to essentially raise somewhere else. I get lots of bids to spend money, but not very many about revenue-raising. We will look at all these things seriously. It is a genuine invitation to submit the evidence. As I have found since I became a Treasury Minister, or since I became a Minister more generally, things are always more complicated than they look.

Chair: On the point Kate made, the Committee was in Londonderry on Monday and yesterday. It would be remiss of me not to say that that is an area that needs this to be looked at. It is a border city, and taxation plays a big part. The difference between Londonderry and just across the border is a significant amount.

There is also the fact of the airport. There is some agreement now on an attempt to boost flights to City of Derry Airport, which is very important. That might be something you want to just consider. It would be remiss not to mention that, given that we spent two day there and saw some of the issues that are in play.

Q409 **Lady Hermon:** I have two final points, if no one else has any questions. During your evidence today, there have been a number of references to the Northern Ireland Executive and what the Northern Ireland Executive could, should, must do or whatever. The Minister will be aware that on Monday 16 January, this week, very regrettably, the Northern Ireland



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Executive collapsed and the Secretary of State for Northern Ireland has announced Northern Ireland Assembly elections, which will take place on 2 March.

When references are made to the Northern Ireland Executive—that was on Monday; it is now Wednesday—what plans have been put in place to consult with Ministers during this period of great uncertainty in Northern Ireland?

Jane Ellison: Lady Hermon, I know you asked this question of the Secretary of State after his statement, and a number of other members of the Committee did. He took a lot of questions. I do not really have anything to add to the statement and the questions.

Q410 **Lady Hermon:** I am sorry, Minister. I was not putting you on the spot. We questioned him; we did have the opportunity. He very rightly came to make a statement on the Tuesday. I would ask Mr Willis the question, because it seems from your earlier evidence to be Mr Willis who has negotiations with the Department of Finance in Northern Ireland. Am I right?

David Willis: I provide support to the Chief Secretary, who is the lead Minister.

Lady Hermon: Exactly, yes. I need reassurance—and the people of Northern Ireland need reassurance—in this interim period, as we build up to the election, about whom the Government here and the Treasury will be negotiating with, speaking to and taking soundings from. According to the Prime Minister, the timetable for Article 50 has not moved. It has not shifted, no matter what has happened to Northern Ireland. Her aim is to trigger Article 50 at the end of March. In this period, when we are having an election, who will HM Treasury be speaking to? It seems, to me, a very straightforward question.

Jane Ellison: The Secretary of State for Northern Ireland commented yesterday about what his priority would be in the weeks ahead, in terms of discussions with the various parties. He also commented on how Northern Ireland would be represented in the discussions around Article 50. In the normal course of events, I would expect official-level contact at civil-service level to continue during these periods. That is normally what happens, but I would not have expected that to address substantive matters of policy that would be decisions taken by Ministers.

Q411 **Lady Hermon:** Is this, then, a ticking-over exercise up until we have the election? Is that what is being described here?

David Willis: As I understand it, Executive Ministers will remain in place until dissolution.

Lady Hermon: They will. They have a caretaker role until the election.

David Willis: Ongoing discussions will take place as normal, on normal business. Officials will continue to have discussions on everyday business in the way they do up to the election, but within the normal rules on a



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purdah period that would apply for any election, either for a devolved Administration or for the UK Government. There will be ongoing discussions. As the Secretary of State for Northern Ireland has made clear, his priority is to see the parties come back to form a new Executive as soon as possible.

Q412 Lady Hermon: Thank you. That is very helpful. It is very helpful to have that on the record. People watching this evidence session will be reassured by that. They just do not know. It is very helpful.

Moving on, Ms Hoey and, indeed, my colleague Mr Kinahan have asked about APD. Could I just reflect to the Minister that it is one of the issues that is regularly a bone of contention for families in Northern Ireland? It is something they feel very strongly about. When young people go to university in England, Wales or Scotland and fly backwards and forwards, it is a really serious issue.

Am I right in thinking—correct me if I am wrong—that when the Northern Ireland Executive took responsibility for APD for long-haul flights, they had to pay for it? The Executive had to pay for it, because otherwise—if the Treasury had picked up the tab—it would have been construed as illegal state aid under EU rules. Am I right? Did the state-aid rules apply?

Jane Ellison: I might have to write to you to confirm the detail of that.

Q413 Lady Hermon: I think they did. The answer to my own question is that I am quite sure that they did, because otherwise it would have been illegal state aid. Again, it is coming back to the freedom that the Prime Minister talks about and the golden opportunities that are out there after the UK leaves the European Union. One of those freedoms will be state-aid rules. ECJ jurisdiction has gone; we are not going to be ruled by the European Court of Justice in Luxembourg. Our destiny is in our own hands.

In those circumstances, given the fact that APD is such a critical issue in Northern Ireland, which is separated from the rest of the United Kingdom by the Irish Sea, is it something the Treasury would look at and review favourably? That will be very helpful going forward, because EU rules are not going to mean the Northern Ireland Assembly has to pay for it. It would be a huge chunk out of their budget: somewhere in the region of £62 million. Mr Cunningham is nodding in agreement.

Mike Cunningham: I am just thinking that, in general terms, the issue of state aid is a bit like the issue we talked about on VAT before. To assume there will be no obligations on the UK when it is no longer in the EU is not necessarily the right answer, because, of course, there will be other trade limitations, under WTO standards for example. Although you might not have European state-aid legislation, you may have other issues to contend with. It is another one that is not simple.

Jane Ellison: That is right. Creating level playing fields for countries to interact with each other on goods and services is the essence of most



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trade deals. Without wishing in any way to be evasive in response to your question, there are an awful lot of things we need to consider over the coming years as part of our negotiations. It is not possible to comment to that level of detail when we are at the beginning of a complex process.

Mr Cunningham makes a very fair point. Wherever we come out at the end of our negotiations in respect of our relationships with the rest of the European Union and other countries around the world, in any trade deals we enact with them, there will always be conditions on both sides. Without being able to look ahead and see what those are, I cannot comment further.

Q414 **Lady Hermon:** I am sorry, Minister. This is the letter that has come from the Treasury. The precedent has already been set that, in fact, Treasury devolved to the Northern Ireland Assembly the responsibility for long-haul flights. It did so. This is the letter that has been signed off by you, Minister. It says quite clearly that the Government were reflecting the wish of the Northern Ireland Executive to have greater fiscal autonomy and flexibility to respond to the rates in the Republic of Ireland. The precedent has already been set.

The rules about the WTO and other trade organisations do not have any bearing on this issue at all. I just want a straightforward reply to what is a straightforward question. Post our leaving the EU, will the British Government be mindful of the need to boost the economy in Northern Ireland? The precedent has already been set with long-haul flights. Will the Treasury look favourably at the possibility of boosting trade in Northern Ireland in competition with the Republic of Ireland through short-haul flights and APD? It is a straightforward question.

Jane Ellison: The Government are very committed now to supporting economic activity in Northern Ireland and all parts of the United Kingdom. The question is too specific to be able to give a specific answer at this stage about what is a complex and no doubt involved set of negotiations. We might know the situation now, but when we leave the EU that relationship with the rest of Europe and our place in the world will change and there will be a new set of arrangements. We do not yet know what they are, so it is difficult to respond in detail.

Q415 **Kate Hoey:** Minister, I thought Mr Cunningham said that you reviewed this from time to time anyway. The idea that reducing APD on internal flights after we leave the EU has anything to do with trade deals is just ridiculous.

Mike Cunningham: I suppose my point is that we keep APD under review.

Jane Ellison: The question started with state aid, to be fair.

Mike Cunningham: Specifically on state aid and whether state-aid rules will apply, my point there is that, although we will no longer be obliged to



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apply European state-aid legislation and rules, there may be rules that affect issues that would have come under state-aid rules within the EU framework. If your question was about state aid, that is why it would be difficult to answer. It does not change the answer we gave earlier about APD: we will keep it under review.

Chair: We cannot prejudge what the report will say, but I am sure we would welcome the fact that everything is being kept under review and there is flexibility going forward in all these matters. That was a very useful evidence session. Thank you very much for joining us.