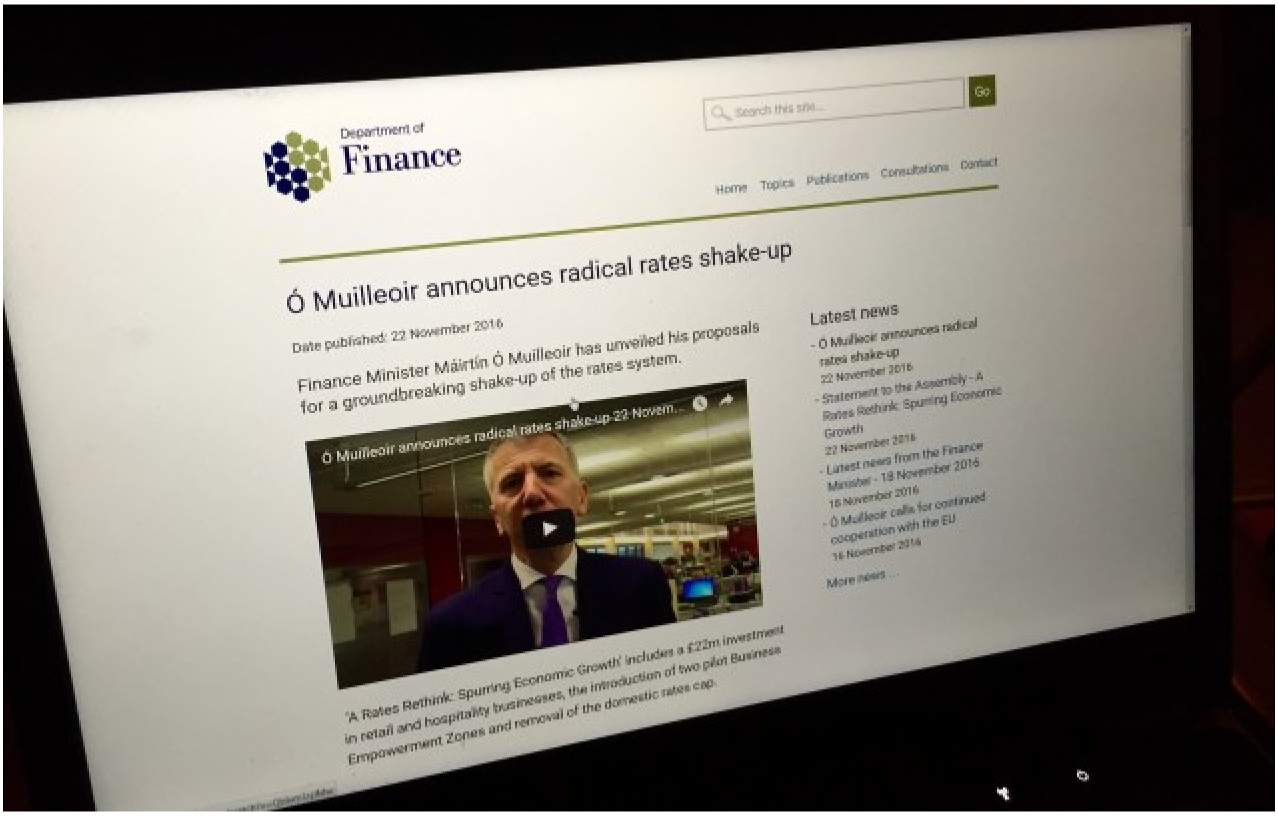


Northern Ireland has the lowest taxes in the UK and the highest public expenditure per head of any region. Together, these form Northern Ireland's fiscal USP (unique selling point). This approach to public finances, however, has arguably not served the economy well (and is unsustainable – read my previous article on the subject). Furthermore, given the ongoing austerity agenda, Stormont will have to redouble its efforts in making public expenditure efficiencies and increasing revenue.

Stormont's biggest tax raising lever is the ratings system. However, it has been a lever that successive administrations have largely only reached for to provide more relief rather than incentivising positive economic behaviours and increasing local tax revenue. But today the Finance Minister has proposed a package of measures that some would say are long overdue and others would deem 'radical' given what has gone before.

Overall, the key thrust of the measures is to increase Stormont's tax take by rolling back many of the rates reliefs and introducing more incentives into the system, some of which promote economic development.

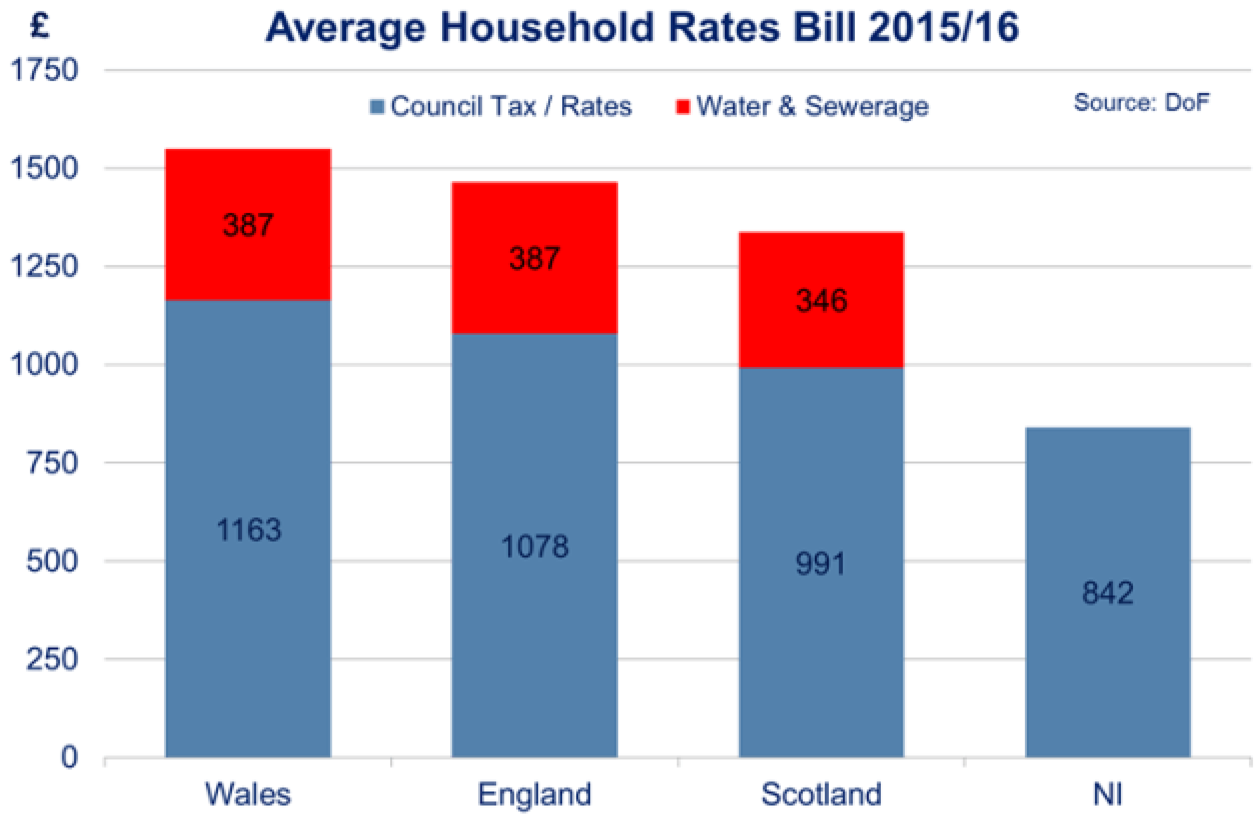
The proposal to introduce incentives, as opposed to blunt ineffective subsidies (e.g. Small Business Rate Relief), represents a positive development. The scaling back of a number of rates reliefs also represents a normalisation towards the rates applied in GB.

The proposals outlined include the following:

- Replacing the existing Small Business Rate Relief Scheme with a more targeted £22m investment in small retail and hospitality businesses.
- Small Business Empowerment Zones to be piloted in West & East Belfast (Falls Road and Upper Newtownards Road)
- A new scheme to provide a rates incentive to revitalise town centres by incentivising the conversion from commercial to residential occupation.
- Charging charity shops rates potentially up to 20% as in England, Scotland and Wales and using this income to support entrepreneurship in the social enterprise sector. Applying the principle that "everyone on the High Street should start to pay something" is to be welcomed. Many rate-paying establishments such as coffee shops face "unfair competition" from charity organisations.
- Scrapping the three month 0% rate on vacant property and raise the 50% rate to 75%.
- Abolishing the University Halls of Residence Exemption
- A new non-domestic rates revaluation exercise in 2019.
- Giving local councils the choice of striking their own non-Domestic District Rate
- Removing the £400,000 domestic rates cap on homes. This will mean higher rates for those homes above this threshold. The Finance Minister notes that Bill Gates' house

in Washington State pays $1m a year on his $100m home. If Bill Gates lived in NI he would pay less than $5k a year.

Overall, today's announcement is a welcome move from both an economic and public finance perspective. Tomorrow's Autumn Statement is also expected to have a greater emphasis on raising taxation on a UK basis. Similarly, we can expect revenue raising to feature more prominently within the Stormont Executive going forward, particularly given the huge differential in household taxation and charges that exists between Northern Ireland and the rest of the UK.



We can expect this regional household taxation gap to narrow in due course. The next rates event will be the setting of the regional rate at budget time for the next financial year. Given that inflation is relatively low, but set to rise significantly, it is an opportune time for the

Executive to announce an above inflation rise before Northern Ireland households start feeling a cost of living squeeze in 2017.