



Response from ICAS to HM Treasury

**VAT, Air Passenger Duty and tourism in Northern Ireland
call for evidence**

4 June 2018

About ICAS

1. The following submission has been prepared by the ICAS Tax Board. The ICAS Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 board and committee members.
2. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 21,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.
3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members in the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.

General comments

1. ICAS welcomes the opportunity to contribute to 'VAT, Air Passenger Duty and tourism in Northern Ireland: call for evidence', issued by HM Treasury in March 2018.
2. Our comments below are restricted to our areas of expertise, which in this instance are to share insights from our members into the complex issues involved in the design and implementation of fiscal matters.
3. We have not answered the specific questions in the consultation but have the following general comments to make.
4. We believe that the consideration of VAT, Air Passenger Duty and tourism in Northern Ireland needs to be viewed more broadly: the principles may also be relevant to Scotland, Wales and parts of England. There is also the broader question of whether it is sensible to have different devolution of tax powers to different parts of the UK or whether there should be more cohesive decentralisation, or devolution, of tax powers and rates.

Tax competition

5. Care needs to be taken in setting a tax competitive policy such as low rates as it may simply lead to further intra-UK competition, 'a race to the bottom', and ultimately falling revenues for everyone. A tax system works on a number of complex and interrelated principles and interactions which have been balanced across the UK tax system to date. With the devolution of tax powers, the success of the tax systems in each jurisdiction of the UK depend on each being an integrated and coherent part of the wider economic, legal and constitutional package.

Air Passenger Duty

6. We discussed proposals to reduce the rates of tax in our submission to the Scottish Government in June 2016 regarding the replacement tax for Air Passenger Duty. The comments are relevant in this discussion, and we attach a copy of that [submission for information](#).

VAT

7. It is our understanding that whilst the UK is an EU Member State, any introduction of a reduced rate would have to apply throughout the UK.
8. Careful thought is needed to weigh up whether repatriation of certain taxes, such as VAT, should be further devolved or whether the features of a single market should be retained. Following Brexit, and assuming that the EU principles of VAT are not retained, there may

be arguments for and against reduced rates of VAT in the tourism sector in certain parts of the United Kingdom.

9. If VAT changes are introduced to boost the economy of Northern Ireland, or indeed any other part of the UK, there is bound to be great sensitivity to whether that damages competition within the UK-wide single market. Differential rates between different parts of a UK-wide single market could well be resisted, or generate calls for the same advantage to be matched throughout the rest of the UK in a chain reaction which could erode revenue take in a race to the bottom. Making good the fall in revenue from elsewhere could be contentious.
10. From the perspective of operating the tax, the more the differentials, whether this is in rates, or on certain supplies, or in particular areas, the more the scope for complexity, tax planning, and tax leakage. It may also add to the administrative burdens. ICAS would urge the Government to recognise the potential for adding complexity to UK and devolved tax law.