Opinion **Irish economy**

Ireland should trust in the skills, not the luck, of its people

Sticking with a low corporate tax rate could turn it into a pariah nation

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It is in Dublin's interests to put its money where its mouth is and raise its corporate tax rate © Paul Faith/AFP/Getty

Chris Giles YESTERDAY

Ireland has an important choice to make. Should it stick with its 12.5 per cent corporate tax rate in the face of mounting international opposition? Or should it fall in line with the G7 agreement and set a rate of at least 15 per cent, calling time on a tax strategy the deputy prime minister on Wednesday said was "a huge part of [Ireland's] economic model"?

The low-rate Irish corporate tax regime started in the 1980s with a 10 per cent rate for manufacturing and a special regime for financial services in Dublin, but it was extended nationwide to create a 12.5 per cent corporate rate on all trading profits from 2003.

There is no doubt the corporate tax system has had big consequences. A large number of US companies have allowed themselves to be taken over by Irish ones in order to change their location for corporate tax purposes. More have located intellectual property and other intangible assets, and leased aircraft in the country to take advantage of the generous tax rules.

Tax avoidance activities are now so pervasive that Irish national income figures have become nonsensical. Gross domestic product is meaningless as an indicator of living standards because the profits of foreign companies, which flow to people outside Ireland, are huge and included in the statistics. The national Central Statistics Office has had to devise a new measure, "modified gross national income", to find a more useful gauge of economic performance.

But if it is evident that Ireland's tax regime matters for companies, it is a much more open question whether it has been the fount of prosperity for the country itself. The timing of Ireland's economic rise does not coincide with its tax changes, for example. For the first 70 years of independence from the UK until around 1990, Ireland had a modified GNI of around 70 per cent of the EU level. This rose to the EU average in the 1990s, before the 12.5 per cent tax regime was implemented.

While academic research has suggested the Irish tax rate has been reasonably important in corporate location decisions, it is far from the only cause of national success. Arguably more important has been the investment in, and quality of, Ireland's education system, which has been prioritised in the past 50 years. According to John FitzGerald of Dublin's Economic and Social Research Institute, this "transformed the educational attainment of the working-age population". Many of the large number of graduates also have experience abroad before they return to Ireland, making them attractive to international companies. These are reasons to feel confident about the Irish economy regardless of the tax rate.

Paschal Donohoe, Ireland's finance minister, estimates that if the global deal went ahead with a 15 per cent minimum rate, the nation would lose a fifth of its corporate tax revenue. This loss would occur because there would no longer be much advantage in shifting intangible assets artificially to the country. That would hurt, but Ireland would not lose its other selling points: an efficient economy, the English language, access to the EU single market and a highly qualified workforce.

The risk for Ireland in joining the effort to end corporate tax avoidance is that it will discover that its success since the 1990s has solely been down to an artificially low rate sucking in footloose business from abroad. But if this success was purely artificial, it is under threat in any case. The US can impose a global minimum corporate tax for its companies unilaterally and the Biden administration is poised for action.

In these circumstances, it is in Dublin's interests to put its money where its mouth is and raise its corporate tax rate, putting its faith in the skills, not the luck, of the Irish. Otherwise it will reinforce the impression that when it comes to tax, it is a pariah nation seeking to steal revenues from its two biggest allies, the US and the EU. For Ireland, that would be futile and dangerous.

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