The decision by Shire plc this week to relocate its holding company to Ireland for tax reasons has reignited concerns that UK corporation tax deters companies from locating here.

Two papers on this issue, commissioned by the European Tax Policy Forum from researchers at the Centre for Business Taxation at Oxford University, will be published at a conference of the European Tax Policy Forum and the Institute for Fiscal Studies on Monday 21 April.

**UK corporation tax deters corporate headquarters from locating in the UK**

This paper analyses the reasons why over 200 companies relocated their corporate headquarters over the last decade, and finds that corporate taxes play a significant role.

Specifically, countries which tax the receipt of dividends received from foreign subsidiaries (as the UK currently does) are less attractive locations for headquarters.

For such countries, the paper shows that the lower the taxes paid by the foreign subsidiaries, the more tax will be paid on repatriation of profit to the headquarters, and the greater the incentive to switch headquarter location to a country which does not tax dividends from foreign subsidiaries.

Around 6% of the sample of headquarters shifted their location in the last decade. Part of the reason for these shifts was the tax regime in the headquarters location. According to the empirical results, if taxes on foreign subsidiaries fell by 10 percentage points, that would increase their tax liability for parent companies resident in countries which taxed repatriated dividends, and induce a further 2% of headquarters to shift to a more tax-advantaged location.

*Headquarter Relocations and International Taxation*, by Johannes Voget, Centre for Business Taxation, University of Oxford

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**UK Government’s corporation tax proposals could damage the UK’s competitiveness**

This paper provides an economic analysis of the 2007 HM Treasury and HMRC Discussion Document “Taxation of the Foreign Profits of Companies”. It supports one element of the proposal: to exempt the receipt of dividends from foreign subsidiaries from UK tax.

But it argues against the anti-avoidance proposals contained in the document (the proposed “Controlled Company (CC)” regime). The government proposes to tax the worldwide “passive income” (roughly, interest, royalties and dividends) of any multinational companies headquartered in the UK. This goes far beyond the need to protect the UK tax base from profits being shifted out of the UK, and is likely to create a significant disincentive to locate
headquarters in the UK. If these proposals were implemented, the Shire example could be the first of many such relocations.

*Taxing Foreign Profit: Economic Principles and Feasibility*, by Michael P. Devereux, Centre for Business Taxation, University of Oxford

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Other papers to be presented at the conference are:

*How does overseas investment affect activity at home?* by Helen Simpson, CMPO, Bristol (Helen.Simpson@bristol.ac.uk)

*Multinationals’ capital structure, thin capitalization rules, and corporate tax competition*, by Andreas Haufler and Marco Runkel, University of Munich (Andreas.Haufler@lrz.uni-muenchen.de)

*The Effects of Company Taxation in EU Accession Countries on German Multinationals*, Michael Overesch, ZEW, University of Mannheim and Georg Wamser, Ifo Institute, Munich (Overesch@zew.de, WAMSER@ifo.de)

ENDS

Notes to editors

1. Papers from the conference will be available on the IFS website at [http://www.ifs.org.uk/events.php?event_id=279](http://www.ifs.org.uk/events.php?event_id=279)