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PRESS RELEASE

TAXES AND THE LOCATION OF CORPORATE HEADQUARTERS

Saïd Business School

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 April 21 at 1 Great George Street, London.

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

The paper and executive summary can be downloaded from:

<http://users.ox.ac.uk/~mast1732/ETPF/Voget.pdf>

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

The paper and executive summary can be downloaded from:

<http://users.ox.ac.uk/~mast1732/ETPF/Devereux.pdf>

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1 About the Oxford University Centre for Business Taxation

The Oxford University Centre for Business Taxation is an independent research centre which aims to promote effective policies for the taxation of business. The Centre undertakes and publishes multidisciplinary research into the aims, practice and consequences of taxes which affect business. Although it engages in debate on specific policy issues, the main focus of the Centre's research is on long-term, fundamental issues in business taxation. Its findings are based on rigorous analysis, detailed empirical evidence and in-depth institutional knowledge. The Centre provides analysis independent of government, political party or any other vested interest. The Centre has no corporate views: publications of the Centre are the responsibility of named authors. The Centre is not a consultancy: it reserves the right to publish the results of its research.

The Centre was established in November 2005 and was initially funded by a donation to the University by the Hundred Group, but is now additionally supported by grants from the Economic and Social Research Council (ESRC) and the European Commission. The Advisory Board of the Centre is chaired by Sir Derek Morris, Provost of Oriel College. For more information on the Centre see <http://www.sbs.ox.ac.uk/tax>

2. About Saïd Business School

Established in 1996 the Saïd Business School is one of Europe's youngest and most entrepreneurial business schools with a reputation for innovative business education. An integral part of Oxford University, the School embodies the academic rigour and forward thinking that has made Oxford a world leader in education. The School has an established reputation for research in a wide range of areas, including finance and accounting, organisational analysis, international management, strategy and operations management. The school is dedicated to developing a new generation of business leaders and entrepreneurs and conducting research not only into the nature of business, but the connections between business and the wider world. In the *Financial Times* ranking of MBA programmes (Jan 08), Saïd is ranked 19th in the world. This achievement follows the School's success in HM Treasury's 2005 ranking of the top 50 MBA programmes in the world, where it finished number one out of all the UK business schools. In the university league table published by *The Guardian* (May 2007), Saïd ranked first of all UK universities for undergraduate business. The University of Oxford also ranked top for business studies in *The Times* report published in August 2007. For more information, see www.sbs.ox.ac.uk.

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