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CORPORATE TAX RATE AND RECENT INBOUND AND OUTBOUND MERGERS AND ACQUISITIONS ACTIVITY IN THE UNITED KINGDOM

Abstract:
In the light of the substantial changes to the corporation tax policy implemented gradually by the United Kingdom government over the course of past 6-7 years this paper looks to consider the impact this change had on the mergers and acquisitions activity of foreign companies in the United Kingdom and vice versa. The tax rate has changes from 28% in 2009 to 21% in 2014 and further, having been flat 30% for a decade prior to that.

We investigate possible statistical relations between this trend and activity from both host and home countries in mergers and acquisitions deals in the context of the financial crises and subsequent recovery. We also try to exploit few other key features from the hypothesis of tax competition such as: productivity cutoff, as well as the so-called proximity-concentration theory to test the influence of the tax rate changes in home and host countries on deals volumes and values. Scope of testing included mergers and acquisitions transactions where UK business involved with countries of one of three clusters: native English speaking (such as the United States, Australia, Ireland); developed European (e.g. Germany, Sweden, Netherlands), and conditional South (China, India, Turkey, etc).

Using different sources, United Nations Conference on Trade and Development, World Economic Forum Reports, and World Bank data to gather information on corporate taxes, Gross Domestic Product (GDP), GDP per capita, trade openness, and business sophistication, we also employed countries’ proximity factor to estimate the impact of the corporate tax. The results did not confirm anticipated influence on the mergers and acquisitions activity – based on empirical evidence it appears that lowering the UK tax rate effect demonstrates either opposite sign to what could be expected, or is redundant and not significant at conventional level of probability.

Keywords:
Mergers and acquisitions; Corporate tax rate; Statistical significance

JEL Classification: G34, H25, C50