We really do need to lower UK corporation tax rates you know: They're the highest in Europe [1]

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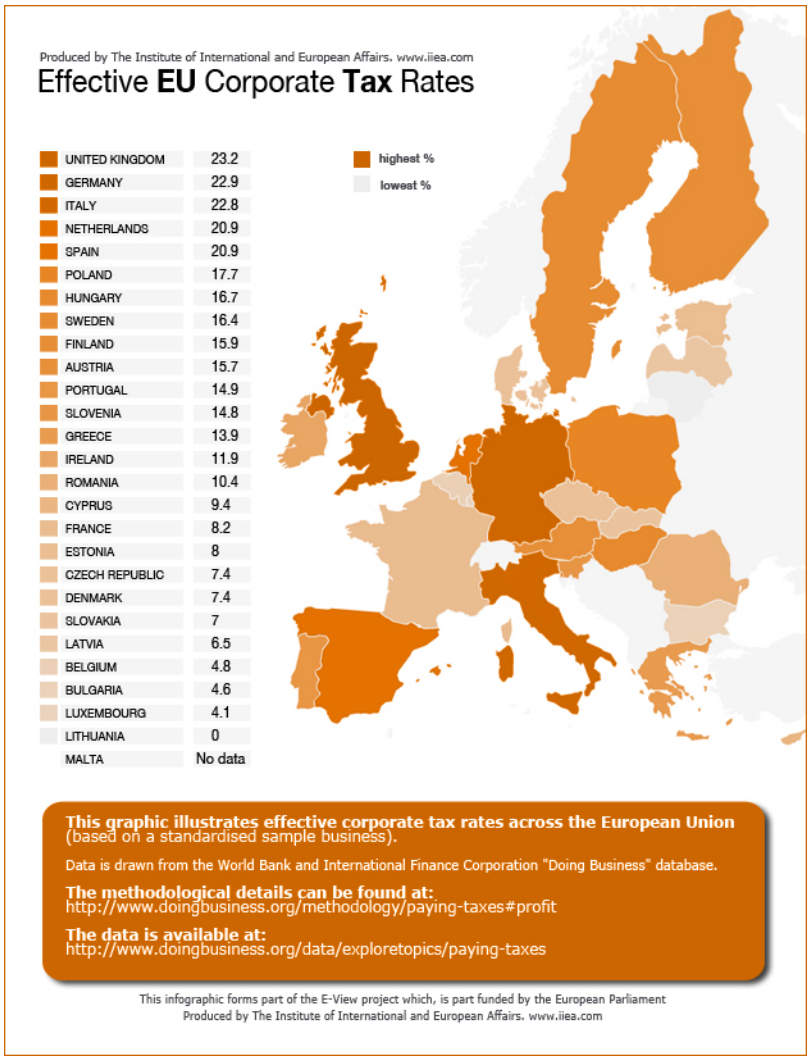
There's a rather sad misunderstanding about corporation tax in the UK at the moment. Everyone seems to think that we've got a low corporation tax here. When we don't in fact: we've got rather a high one. Oh, sure, we've a low headline rate: but that's very much the smallest part of corporation tax. The much more important part is what are the reliefs, the allowances, what can you claim back, what is actually taxable. Which gives us the effective rate [3]:



It's very difficult indeed to describe the highest EU corporation tax rate as "low". The difference is, while we've a low headline rate, we also allow many fewer exemptions from having to pay that low rate (largely Nigel Lawson's work I believe).

And the importance of this is this [4]:

This isn't just a theory: It appears to be true for that most economistic of organizations, the multinational corporation. When multinationals are deciding which country to invest in, they don't pay that much attention tomarginal tax rates [5]. According to Glenn Hubbard [6],

...investment location decisions are more closely related to average rather than marginal tax rates.

When making the go/no-go decision, corporations care more about their long run tax bill. That's because the marginal decision is the go/no-go decision.

Yes, average and effective tax rates are the same thing.

It's not good enough our just having a low or competitive headline corporation tax rate. We also need to have a low effective rate. Good grief, at the moment we're twice *Ireland's* rate.

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