

Tax Reform in Troubled Times: Lessons from Investor Reactions to UK's Tinkering with Tax Rates

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Abstract

On March 03, 2021, the UK's finance minister Rishi Sunak announced a tax reform that marks a U-turn in the British corporate tax policy, as it includes a significant corporate tax hike to recover the fiscal costs of Covid-19 support measures, which were, as part of the announcement, concurrently extended. This study analyzes the investor reaction to the announced tax reform.

We find that the capital market reacts positive with regard to companies that are severely affected by the Covid-19 pandemic and the Brexit. However, the extension of Covid-19 support measures and refinancing them through a corporate tax hike comes at the price that more dynamic and innovative firms are penalized by the capital market. Thus, our results show that investors value the tax reform quite disparately for different companies. Moreover, the tax reform might jeopardize the UK's future growth if dynamic and innovative firms suffer.