

Funding the Future

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[According to Reuters:](#)

Starbucks Corp said it decided to move its European headquarters to the United Kingdom from the Netherlands following criticism over its low tax payments in Britain last year, The Times reported.

The world's largest coffee chain said the relocation was primarily to get closer to Britain, its biggest and fastest-growing market in Europe, the British daily reported, quoting Starbucks' president of Europe, the Middle East and Africa, Kris Engskov.

The obvious question is, why would Starbucks want to do that? Thankfully, there are some obvious answers, but not if you don't know little bit about the changes that George Osborne has made to the UK tax system since he came into office.

First, of course, is the fact that Osborne has cut the UK corporation tax rate from 28% to 21%: the UK now offers a lower tax rate than the Netherlands. Some journalists who have phoned me have presumed that this is the motive for Starbucks, but let me assure you, it is almost irrelevant.

The real reason, I'm sure, why Starbucks moving is because George Osborne has changed the UK from having a corporation tax system that charged UK-based companies to tax on their worldwide profits to one where he only charges UK companies to tax on the profits that they earn in this country. This is the so-called territorial basis for taxation. This has enormous advantage to a company like Starbucks. That is firstly because one of the major functions of its European head office is to route the royalties earned on the use of the Starbucks name from each operating country through to Starbucks in the USA. Because of the UK's new territorial tax system all the royalties now received in London from every country in Europe will now be entirely tax-free in the UK because of George Osborne's largesse. Although the Netherlands is generous with regard to its treatment of royalties for taxation purposes, nothing is as generous as to be not charging tax at all, and yet that is the offer that the UK now makes to any multinational company who wishes to use London as its headquarters location.

Second, we know that Starbucks' Netherlands operation had a forward pricing agreement with Switzerland with regard to the price paid for coffee. Recent evidence is that the UK is willing to sign similar such deals with companies that have a record of apparent tax avoidance. The Daily Mail recently highlighted the fact that Microsoft has signed such a deal to which the UK has acquiesced. I am fairly sure that however generous the deal the Netherlands offered to Starbucks was, similar arrangements will have now been agreed with HMRC to ensure that no more taxes paid here than it was Holland. All in all, that means it is highly unlikely that any significant tax will be paid on the margins made on coffee sales in the UK.

So, why does Starbucks say that it might pay more tax in the UK? The obvious answer to that is that this relocation would seem to give rise to a tax charge in the UK on the profits previously paid as royalties to the Netherlands, but otherwise I think it is unlikely that any additional tax will be paid. My guess is that the additional tax paid in the UK will be less than the overall tax paid to date in the Netherlands: I'm presuming that Starbucks are being nothing less than coldly rational about this move, whatever their PR hype says.

I'm also told by a journalist that Starbucks has said that no more than 10 employees will be relocated to the UK as a consequence of this move: let's not celebrate any massive coup with regard to additional PAYE for the UK as a consequence of this relocation.

Instead this deal represents Osborne's deliberate achievement, about which most were sceptical when I had a few others said that it was his objective to turn the UK into a tax haven, which is exactly what he has done. Where once a multinational company would have had to locate in a place like the Netherlands and Switzerland, which deliberately exploited their small size to create a corporation tax system that had all the characteristics of an offshore haven, the UK now offers a system that is even more abusive in what otherwise appears to be a respectable trading location.

That, I am sure, is why Starbucks are moving to London.

And let's not celebrate this: what it represents is outright tax abuse promoted by George Osborne to the benefit of multinational companies at cost to all the rest of us.