A response to the Consultation on an IMF 2019 Analysis of International Corporate Taxation

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This submission

We are pleased to submit observations in response to your call for evidence on tax spillovers made in October 2018 at https://www.imf.org/external/np/exr/consult/2018/corptaxation/

The submission is made jointly by Professor Richard Murphy of City, University of London and Professor Andrew Baker of the Sheffield Political Economy Research Institute at Sheffield University, both in the United Kingdom.

We are the authors of the first peer reviewed journal paper on tax spillovers, a copy of which we attach. This will be published in Global Policy[iii] in 2019.

The policy recommendations in that paper are as follows:

- Systematic country by country tax spillover analysis should be undertaken in a multilateral process overseen by existing international organisations;
- Such an exercise should not be exclusively quantitative, but should involve a substantial qualitative process, involving reporting and assessing of a wide range of tax practices and processes;
- Such an exercise should be informed by the aim of reducing the harm states do to their own fiscal autonomy and that of other states as a practical element of an effective international moral harm convention on taxation;
- Spillover assessments should be driven by an understanding that the purpose of corporation and capital gains taxes is to defend and buttress tax systems as whole;
- To be comprehensive spillover assessment should consider spillovers between and within tax systems covering the following areas: income tax; corporation tax; capital gains tax; social security; tax politics; tax administration; company and trust administration; and international agreements;
- Spillover assessment is therefore domestic as well as international and should revolve around three forms of assessment: domestic spillovers; international risks generated by a jurisdiction; international vulnerabilities of a jurisdiction;
- Professional assessors conducting spillover analysis should collect impressions about current tax practice through wide ranging stakeholder consultations, including interviews and surveys to inform their judgements, in a process similar to the corporate governance ROSCs conducted by World Bank Staff;
- Numerical scores should be allocated on a 1 to 5 scale using such a method, but field notes should also translate into a more qualitative style report assessing and reporting on tax practices and the spillover risks associated with particular jurisdictions, and should contain targeted policy recommendations;
- Different IOs have different expertise, but the IMF, the OECD, the UN and the World Bank should all feed into the precise design of the exercise, with the World Bank possibly being best placed to carry out the actual spillover assessments through a qualitative effort.

We have written guidance on how our suggested approach to tax spillovers might be used in practice, and have undertaken an early draft spillover appraisal of the tax system of the United Kingdom, applying our framework. We attach drafts of both these documents to this submission.

We give out explicit consent for our submission to be published. We shall be pleased to discuss it with you.

Richard Murphy and Andrew Baker

10 December 2018

Consultation responses

1) How do you view the current state of the international corporate taxation system?

For example:

• What do you see as the main successes or shortcomings of the OECD Base Erosion and Profit Shifting (BEPS) project?

The BEPS process was not without its merits, the biggest of which we would consider to be the recommendation of country-by-country reporting. We would simultaneously suggest that the OECD's promotion of systematic automatic information exchange between countries is of great importance. However, we think there were also major weaknesses in the process. In particular, it assumed that the existing structure of international tax relations and the basis on which multinational corporations should be taxed should remain intact. This means that:

- The weaknesses that exist in the structure of international tax agreements continue to exist;
- More importantly, the OECD's arm's length basis for the taxation of multinational companies has remained intact. This means that these entities continue to be taxed on the basis of the fiction that they are made up of independent entities, the existence of each of which should be assumed to be commercially justified, when there is significant evidence that this is not true.

Our suggestion is, then, that what OECD BEPS did was place a 'sticking plaster' on the existing system of international taxation rather than stand back and ask what the real weaknesses and spillovers within the existing tax system were, which would have identified the existing tax treaties and the arm's length pricing method as issues to be addressed, rather than to be retained. We feel, then, that there was a systemic failing in the BEPS process.

• How does it affect developing countries?

The opinion of developing countries was largely not heard during the development of the BEPS process, which was designed for the primary benefit of OECD member states. Many developing countries make this point, emphasising that at present many of them will be denied the benefits of country-by-country reporting which was always intended to be for their benefit from the time it was created by civil society in 2003. In addition, the real problem of how to supply the resources required for developing countries to tackle the issues that they face, most especially with illicit financial flows, was not addressed by BEPS. This, again, implies that there was a failure to undertake a proper qualitative spillover analysis before BEPS was put in place.

• What are your views on recent tax reforms in the US and elsewhere?

The US tax developments have been put in place for the sole benefit of the USA. They have, therefore, been designed without any consideration for the spillover effect that they might have on countries outside the USA. It so happens that some of those spillovers, such as imposing minimum tax rates, might have international benefit. But overall the continuing isolation of the US tax system from that used by the rest of the world is a matter of considerable concern.

The risk of tax spillover effects is minimised when there is a high degree of cooperation between international tax systems with the intention of encouraging tax compliance i.e. the payment of tax at the rate right, in the right place, at the right time where 'right' means that the economic substance of the transactions actually undertaken is reflected in the form in which the transactions are reported for tax purposes.

Using this logic the problems created by the USA are significant. Corporation tax does, of course, have a role in assisting states achieve their revenue raising objectives, but it also has an essential role as a backstop to income taxes. This is a defensive role. A corporation tax should ensure that there is the lowest possible leakage from income tax systems by the diversion of income into corporate entities. When there is inconsistency between corporate income tax systems the risk that this backstop fails increases. This is especially true when any corporate tax system either directly or indirectly encourages the tax interaction between the corporation and its individual shareholders to take place through capital transactions. This can happen when profits are retained to save tax but the resulting increasing net asset worth of the entity is reflected in an increase in its stock price, which is then subject to taxation as a capital gain, usually at lower taxation rates. It can also happen via share buy backs, often with the same net result. This appears to be a particular characteristic of the US tax system both before and after reform, which is then undermining the US tax system as a whole via this spillover effect.

This in turn has a spillover effect on the tax system of other countries because of the spillover of US tax politics on other countries and the pressure this brings to bear on their tax systems. We believe that this is the type of risk that multifaceted qualitative tax spillover analysis helps identify. This encourages our promotion of the use of that system.

• Are problems with the current principles of international taxation (residence and source bases; arm's length pricing…) becoming harder to deal with?

The current international system for taxing corporations, in particular, is based on an economic and legal fiction. This fiction is that all the entities that make up a multinational group of companies should be considered to be independent, commercially justifiable corporate entities whose transactions are all entered into for the sole purpose of pursuing its own profit maximisation, which task it fulfils by trading at market prices for the benefit of its shareholders, to whose identity it is, however indifferent.

This assumption is not true. The subsidiary companies are not indifferent to the identity of their shareholders: they exist solely to serve those shareholders purpose, which need not be the maximisation of the profit of that entity in isolation. In addition, they act solely in accordance with the instructions provided by those shareholders. If that means that the company does not maximise its profit, or does not trade at market prices, but for the benefit of the group as a whole, then that is what they will do. That is the actual purpose for which they exist. And for that reason there is no requirement that a subsidiary have any commercial substance at all, at least in its own right: it may exist solely to ring fence a liability, for example; or to delineate an activity for purely regulatory purposes; and it might just as easily exist solely to assist the mitigation of a tax liability for the group of which it is a member.

The presumption that arm’s length pricing is in any way appropriate in this circumstance, or that there need be a separate profit motive, is then wholly inappropriate. If that profit motive exists it is driven by the board of the corporate entity as a whole, which will not, by any means, record all the income arising in the entity on the basis of separate entity accounting.

The accounting profession and company law did recognise this fact a long time ago: consolidated accounting for corporate groups has been commonplace for about 70 years. Nonetheless, despite a steady move towards basing taxation liabilities on accounting profits this fact has not been reflected in tax law.

This has largely been the result of taxation politics. There has been a failure at international level to agree to a change to the system of taxing rights over multinational companies created by the League of Nations in the 1920s and 1930s. It is important to note that at this time consolidated accounting was rare: the data to tax on a group basis did not always exist. It was unsurprising that a separate entity method of taxation was adopted in that case. But since the practice of accounting has moved on many decades ago it no longer makes sense, barring the fact that the national politics of this issue, and the practices of the OECD have been heavily influenced by extensive lobbying from those with a vested interest to maintain the status quo.

Those vested interests include:

- Multinational corporations themselves, who have clearly benefited from the ability to avoid tax that the current system has created;
- The tax havens, whose well being is at least in part based on the relocation of corporate profits to these locations, with their credibility and legitimacy being even more closely associated with this activity; and
- The firms of accountants (in particular) who have made it a specialist business to advise on the creation of so-called ‘transfer prices’ that supposedly reflect market prices when there is in fact no market in existence for many of the activities that take place in the internal trades recorded by the subsidiaries of multinational corporations. The profits that they make from

being the controllers of the vast majority of the intellectual property associated with this activity are likely to be prejudiced by any change to this tax basis.

It should be noted that similar problems exist with regard to the source and residence basis of taxation when it comes to corporations. Whilst source bases of taxation can be hard to dispute in some cases (for example, the extractive industries) tax residence is largely a matter of choice for the subsidiaries of multinational corporations, and even those corporations themselves. This opportunity is extensively gamed at cost to all nations, but most especially source states, against whose interests the standard OECD double tax agreement is biased, particularly with regard to limitations in tax withholding. This gaming undermines the credibility of the system, whatever the intention behind its creation. Further tax spillover effects are created as a result.

The means to tackle these spillovers exists. Country-by-country reporting has indicated the possibility of this. The fact that it (uniquely) originated in civil society[iv] and has not in any way been endorsed by the accounting standard setting establishment and has been resisted by the largest firms of accountants and auditors does indicate that the obstacle to progress that tax professionals present, as noted above, is real. Country-by-country reporting (CBCR) does, using the minimum number of necessary variables to indicate economic activity (which might, it should be noted, need to be extended in the case of extractive industries activity and, maybe, banking), suggest where it is likely that the economic substance of activities is located. Ideally CBCR would report by country:

- Sales by country, separated into both third party and intra-group transactions, on both a source and destination basis;
- Labour, both by head count and total employment cost including the cost of benefits in kind and secondary forms of payment such as share options;
- The cost tangible asset investment by location excluding intra-group balances;
- Shareholder funds;
- Profit before tax;
- Current tax due;
- Current tax paid.

These elements could then be used to apportion the profits of a multinational corporation to states by formulaic calculation. The question of profit apportionment is then resolved. The consequence is that the state to which the profit is then allocated is liberated to charge whatever tax rate it wishes. This, it should be noted, would not end tax competition. States might still offer low corporation tax rates to induce the inward relocation of labour or tangible investment, in particular, but at least tax competition might then take place on the basis of the economic substance of transactions, as both market practice and economic theory might suggest appropriate. This is the optimal solution to resolving the problem of apportioning taxation rights.

Alternatively, and as an interim step, states might wish to adopt an 'alternative minimum corporation tax'[v]. This would require a calculation based on available CBCR data, as noted above, to determine the proportion of total multinational group profits (declared on on accounting basis if not otherwise capable of determination) attributable to a jurisdiction. This would then be subject to a deemed effective tax rate that might be a high proportion of the standard corporation tax rate of the jurisdiction in question. If the resulting sum was higher than the tax due based on declared profits then it is suggested that the difference be charged as an excess charge. It is likely that this would only be an interim step whilst a full apportionment basis for corporation tax was agreed internationally to tackle the spillover effects the current system creates.

• In your view, is the allocation of taxing rights and profit attribution to countries problematic?

As noted above, we do think this is the case. We have outlined our solutions.

2) Assuming that the world continues with broadly the current international tax architecture, what does the future of corporate tax look like?

For example:

• How will digitalization and the growing importance of intangibles and "user participation" (e.g., through search engines or social media) affect the system in terms of fairness, efficiency and implementation?

The inability of the existing corporation tax system to reflect the economic substance of the activities (and accounting) of a modern corporation has already been noted. This is particularly true with regard to digital companies, where the ability to exploit the current international tax architecture to avoid corporate income tax has become extreme, and a core part of the business model of the monopolistic entities that now tend to dominate segments of this market.

In the face of the apparent inability of that international tax architecture to respond to the stresses that these tax spillovers have created local solutions are being sought, most of which are based on taxing turnover in some way, even if turnover is not, per se, an indicator of the capacity of the corporation to pay tax.

This move is unlikely to impact the corporation itself given that the incidence of the charge is likely to fall onto those paying for the corporation's services given the monopolistic, or at least oligopolistic, nature or the price setting activities of these entities.

The consequences of the failure to adapt the corporation tax system to need and its fracturing as a result has significant spillover effects. In particular, calls for the abolition of corporation tax itself might arise, which would remove its quality as a mechanism for reducing spillovers in the first instance.

Second, the corporate tax base will be shifted towards consumers through the imposition of what is, in effect, a new sales tax, the incidence of which will impact consumers and not the corporate entities charged with collecting it.

Third, this will increase, and not decrease spillover effect. In particular the tax system may well become more regressive. It will also be more heavily biased in favour of large corporations and against smaller ones, who consume the services if the major digital companies.

Finally, the system will be more fragmented rather than less, and this always increases opportunities for abuse.

The need is for a unitary apportionment formula model for tech companies where usage rather than sales becomes the variable for profit apportionment related to revenue. Alternatively, minimum corporation tax systems should instead be adopted by countries when seeking additional revenue from these corporations since the spillover risks are much lower.

• How effectively can future tax policy changes be implemented into the existing international architecture?

For the reasons noted previously, the existing tax architecture is life expired. The time for radical reform has arrived. Existing tax policy cannot be delivered using it. Future tax policy is beyond its reach. An early twentieth century system cannot meet the needs of international tax nearly a century later.

• Will tax competition intensify or moderate?

It is unlikely that a definitive answer to this question can be supplied because there are too many variables to consider. However, this being noted, it is likely that the fracturing of the system that is now being seen with regard to tech companies will increase the scale of tax competition. The adoption of unitary apportionment methods of tax allocation will not, as noted, eliminate that competition. That is not the aim. It will however mean that the competition in question will be for the location of actual factors of production and not the artificial ones that drive the existing architecture of international taxation.

3) Can unitary/formulary methods help address weaknesses of the current architecture? If a full shift to formulary apportionment is not possible, what is your view of using some form of residual profit split in cases where arm's length pricing doesn't work well or make sense?

We have already largely addressed this issue.

We do not think that universal adoption of a unitary method is a pre-condition of its use: it can be rolled out using more and more commonplace alternative minimum taxation methods.

A residual profit split method is not in any way an acceptable alternative method to unitary apportionment. This is because a residual profit plot method assumes that the corporate structure in use was created for commercial purpose. As previously noted this will be an inappropriate assumption in many, if not most, cases. As such the method is bound to seek to apportion profit on a basis that does not reflect the economic substance of transactions that have taken place and that means it is inappropriate for use.

4) Several proposals include elements of destination-based taxation (i.e. allocating tax base, perhaps in part, to the place of the final sale)? What pros and cons do you see in this, both in

principle and in practice? Do you see the current system as already moving towards destination-based principles (e.g. interim digital taxation measures)?

These methods are most associated with the work of Prof Michael Devereux and Pro Rita de la Feria. We can see no advantage to the proposals that they have made. In essence they have suggested that corporation tax be charged as if it was a value added tax arising at the point of sale having made a deduction for the cost of labour, which would not be available in a VAT system. The problems arising include (but are not limited to):

- The fact that this is, in all but name, a VAT reveals the principle weakness in this proposal. VAT is a deeply regressive tax when considered in proportion to income and wealth (which should be the only basis on which the progressiveness or otherwise of a tax system is appraised, despite contrary opinion from some). This tax would, then, be counterproductive to the objective of most tax systems, which include the aim of reducing income and wealth inequality. Instead it would actually exacerbate both. This is a substantial spillover impact;
- By shifting the tax due to the point of final sale taxing rights would also automatically flow to the countries with the highest levels of final consumption, and these are, of course, the richest countries in the world. The fair apportionment of the tax base within the world community would, then, cease to exist. International inequality would increase as a result. This is an unacceptable spillover effect of this proposal;
- The proposed system could be substantially gamed by the use of franchise sales operations under supposedly third party ownership that were required to buy from a manufacturing group's international sales outlet located in a jurisdiction deliberately setting a low or no tax rate to abuse this new arrangement. Anti-avoidance measures might, to some degree, be possible to tackle this possibility, but they would be complex and potentially very hard to enforce. It is entirely possible that this system might, then, actually increase international tax abuse rather than reduce it, and in the process reduce corporate tax yields considerably;
- This proposal shifts the incidence of corporation tax from capital onto consumers. This is not the intention of corporate taxation and, in our opinion, the actuality of most current corporation taxes[vi]. We think the move unacceptable;
- This measure does, by shifting the incidence of the corporation tax onto sales, remove the backstop quality of corporation tax in supporting the income tax. As a result tax spillovers will increase considerably. This will not just be in general but also in particular, not least because it is not at all clear how this system would handle the income of a company derived largely or entirely from investment sources. Because of this weakness it is likely that income and wealth inequalities within jurisdictions will be increased by this proposal;
- In administrative terms this tax would severely prejudice exporters within the SME sector, whose administrative burdens would increase considerably as a result of having to account for tax in each of their destination markets. This makes little sense when these sectors need encouragement to partake in trade. The spillover consequence of the proposal would be to reduce international trade and competition and concentrate markets even more than at present.

In summary, we can see no merit to these proposals.

5) Should tax bases be changed to target only "economic rents"— "excess profits"—leaving the taxation of "normal" returns to the shareholder level (or not taxing them at all)? For example, this could entail using a cash-flow tax or Allowance for Corporate Equity or Capital system that allows immediate deduction at the corporate level of all investment costs, or allows an annual deduction for a standard return to invested equity as if it were debt.

We see no merit to these proposals:

- As we have explained in our journal paper for Global Policy, which is attached to this submission, corporation tax exists as a backstop to income tax. Its primary purpose is to prevent the diversion of the earnings and gains of those who do not need all their income to meet their regular outgoings into corporations and so avoid taxation altogether. The proposal noted in this question has the exact intention of undermining this backstop effect. As such it might significantly increase spillover effects and undermine both income tax and capital gains tax yields as a result. In that case income and wealth inequality will be directly increased by this proposal and we can see no merit in doing that. This is not just for social reasons: the resulting loss of taxation revenues would, we suggest, likely lead to reduced government spending and so growth.
- We have further reservations. The first is that there is no real evidence that reduced corporation tax rates do result in increased investment.
- Nor is there evidence that increased dividends necessarily boost consumption: by definition they simply reallocate the legal ownership of capital as many of those who own it do not need additional income to meet their needs.
- There is also a technical objection. Even if the income of companies was distributed (and it is more likely to be accumulated to eventually be taxed as gains) there is often considerable difficulty in identifying the owners of corporate entities. New information sharing arrangements are unlikely to entirely solve this problem. Existing corporation tax arrangements overcome this problem by effectively acting as a tax deduction at source, so ensuring some revenue collection, even if not all that due is necessarily eventually paid. As such the corporation tax also has positive spillover effects for tax administrations in undertaking their work.

As such we see no merit in this proposal.

6) What do you think of proposals (or reforms such as the recently enacted US "GILTI" provision) to impose some form of minimum corporate income tax?

We have previously noted our support for an alternative minimum corporation tax system as a means of progress towards a unitary apportionment taxation system. The US proposal has weaknesses, if only because it has been developed in isolation and without any apparent consideration of its spillover effects, but in broad principle we support the creation of minimum corporate income tax systems.

7) What is your view of taxes targeted specifically at digital activities of various forms?

We have made our observations on such taxes previously, as well as the reservations we have about them and the alternatives that we think are available.

8) How do you assess current arrangements for international tax cooperation or coordination? Are they adequate to address weaknesses you may see in the current international tax architecture?

There are major weaknesses in the current arrangements for international tax cooperation. Whilst there is no doubt that the OECD has used its best endeavours on the Base Erosion and Profit Shifting project, the OECD does rightly suffer from the description of being a 'rich-countries club'. Its members all largely fit that description and some BRICS states and the G77 are very largely excluded from its considerations, whilst tax havens are over represented in many of its activities. It does, then, fail to reflect the reality of a world where population, growth and even profits are really shifting. It also, because of its long-term very close ties to the business community who are dedicated to the maintenance of its (as previously noted) artificial basis for international taxation of multinational corporations, suffer from reputational risk from close association with the very interests that need to lose relative power in any new international tax architecture.

If, as we think appropriate, the international tax architecture should reflect the interests of those who are impacted by it then all those who are stakeholders within it must be participants in the process by which it is created and maintained. This, then, requires representation from:

- All countries, with long term funding and training provided to those with limited resources to participate;
- All relevant stakeholder groups, and not just large business. This would require participation from:
    - Small and medium sized entities;
    - Civil society groupings;
    - Trade unions and other employee groups;
    - Consumer groupings;
    - Regulators, including those impacted by, but not directly involved with, corporate income taxes such as local authorities.

We suggest the provision of funding in all cases: access is too important to be compromised by the absence of resources.

We suggest that United Nations oversight might assist this process.

We do not object to a continuing role for the OECD in providing expertise and input.

An international tax court, ruling publicly, is a necessary condition for the open operation of this system, so that disputes can be seen to be openly and fairly resolved.

9) Please feel free to raise any other issues that you think the IMF paper should address.

We attach three notes to this submission.

The first is a journal paper on the creation of an alternative spillover methodology to that proposed by the IMF in 2014. This is the first refereed academic paper on tax spillover and the first to propose a practical method, or easily administered tool-kit, for conducting national level spillover analyses. We welcomed the IMF initiative in that paper, and see merit in what it suggested. However, we also note the limitations on data availability to undertake country level quantitative assessments. In addition, we think the current conception and definition of spillovers is too narrow, because of efforts to model and measure it quantitatively. In our opinion spillovers can take domestic form between different taxes as well as international ones, and spillover effects are not solely restricted to corporation tax.

The proposal we have made suggests that spillovers might be appraised qualitatively, as well as where possible quantitatively. To achieve this goal we have proposed a minimally normative test for appraisal of the impact of any one part of a tax system on another part, which is that the part being considered should not cause harm to any other element of the same system, or elements of other countries' tax systems. We think this a sufficient criterion to guide a qualitative process.

We suggest that spillovers should be appraised in three ways. In the first instance domestic spillovers should be appraised i.e. the impact of the domestic tax system on itself should be considered. Thereafter the risks a tax system generates for other tax systems should be appraised. Finally, the tax spillover vulnerabilities a jurisdiction has to the tax systems of other states needs to be appraised. This is, a measure of tax spillover risk emanating from external sources.

In broad terms we suggest similar methodologies in each case. Very low risk is indicated by a score of 1 and high risk by a score of 5.

We suggest that risk be much more broadly based than the IMF 2014 methodology suggested. This is a merit of a qualitative system that is very hard to reproduce in a quantitative method. It is our suggestion that eight issues, comprising four taxes and four other functions be considered. The taxes are as follows:

- Income taxes
- Corporate income taxes
- Social Security and similar taxes
- Capital gains taxes

Social security is included because it is frequently of considerable domestic importance. Capital gains tax is included as a proxy for taxes on wealth, but also because, like corporation tax it was originally introduced as a back stop to income tax and is inherently, as a result, an anti-spillover measure. Value added taxes might be of considerable revenue significance but have not been included because they tend to have limited interaction with direct taxes domestically and rarely have international impact by the nature of their design.

The administrative and other systems considered are as follows:

- Tax politics. This measure appraises whether or not the politics of a jurisdiction are broadly supportive of tax compliance, or not. Matters to be considered might include attitudes to tax competition, for example.
- The tax administration. This considers, for example, whether this administration is adequately funded; is free form corruption; is fair to taxpayers and whether or not it is also dedicated to tax compliance through fair process.
- The company and trust administration. This indicator considers whether these administrations support the tax system by assisting the identification of those likely to have tax liabilities arising as a result of their participation in the structures that these organisations regulate;
- International agreements. This indicator considers whether or not cooperation of the required sort really exists to promote tax compliant taxpayer behaviour.

When these arrangements are considered the results are, using our methodology, plotted in a grid that has an appearance such as this (which is that for international tax spillover risks created by the UK):

United Kingdom international tax spillovers: risk to other countries from the UK	**The issue in other countries**										
	Tax spillovers	Income tax	Corporation tax	Capital gain tax	Social security	Tax politics	Tax administration	Company and trust administration	International agreements	Total	Sub totals
Issue being assessed for the UK	Income tax	4	1	2	2	4	2	2	4	21	94
	Corporation tax	5	5	4	2	4	5	4	4	33	
	Capital gain tax	3	2	3	2	4	4	2	4	24	
	Social security	2	2	2	2	2	2	2	2	16	
	Tax politics	4	5	4	2	5	4	5	4	33	129
	Tax administration	4	5	4	2	4	4	4	4	31	
	Company and trust administration	5	5	5	4	5	5	5	5	39	
	International agreements	4	4	3	2	3	3	4	3	26	
	Total	31	29	27	18	31	29	28	30	223	223

We have colour coded the risks to highlight where they arise.

The second document that we attach explains our approach to this methodology in more depth.

The third is a sample appraisal of the UK prepared using this methodology. We stress that this is a draft view at present and not necessarily one that we think would necessarily be replicated if an organisation such as the IMF were to use this methodology. We do, however, think it important because what it makes clear is that a tax spillover appraisal of the sort that we suggest almost necessarily results in the creation of recommendations on the steps that might be taken to reduce tax spillover risk at all three levels that we suggest should be appraised.

We believe the framework we propose and lay out in these documents offers a practical way of conducting country level spillover analysis that has several advantages. First, it captures many of the things missed by more quantitative approaches reliant on official data and established data sets. Second, it is guided by the objective of identifying, evaluating and discouraging forms of tax competition that potentially harm other states, rather than simply being an exercise in measurement for measurement's sake. Third, the framework provides a comprehensive reading of the diverse elements of spillover as a multi-faceted and multi-directional phenomenon. Fourth, these different forms of assessment are necessary because states can be both aggressors and generators of risk, but also vulnerable to spillover risk, to varying degrees. Fifth, the qualitative reports the framework generates can be both diagnostic and remedial in function, identifying priority policy reform recommendations to reduce spillovers. Sixth, the framework can act to disincentivise the aggressive tax competition that can cause spillover effects for others, by attaching some reputational risk to such strategies.

We would be happy to discuss this submission and the tax spillover appraisal procedure that we propose with you.

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Endnotes

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