Funding the Future

Tax spillover assessments: an idea whose time has come

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What I am pretty confident is my most significant academic publication to date has just appeared in print, in Global Policy journal. It's also available to access, free of charge because my part of this work was undertaken as part of the Combating Financial Fraud and Empowering Regulators (COFFERS) Horizon 2020 project. My colleague on the project was Prof Andrew Baker of Sheffield University.

The work is an obvious extension of research I have done into tax gaps in the past. It reflects the fact that I now realise that domestic tax abuse imposes a substantially greater cost on countries than does international abuse, and that evasion is much more costly than avoidance. The sums involved are simply too big to ignore, but there has been no systematic method of identifying where and what that risk is to date. The qualitative approach to tax spillover analysis that Andrew Baker and I have developed, which has already won some major NGO and political backing, is the way to undertake a proper review of these risks. The method is designed to deliver action plans for reform, examples of which have been done.

It's my belief that every country could make a massive rate of return on undertaking such an analysis.

The abstract and highlighted policy implications of the work (which, very unusually, this journal requires) are as follows:

Abstract

Tax spillovers are the effects one country's tax rules and practices have on other countries. They have been assessed in aggregate terms by the IMF using econometric models, and were found to have a 'significant and sizable' impact in reducing corporate tax bases and rates in 'developing countries. However, a widely accepted form of country level spillover analysis remains elusive, despite demands from nonâ€governmental organisations (NGOs) and international organisations (IOs). We present the first framework for conducting comprehensive national-level spillover analyses using a qualitative evaluation framework in three steps.

First we identify the importance of the normative underpinnings of multilateral evaluation frameworks. We make the case for an international moral harm convention that discourages states from doing harm to other states through their tax policies.

Second we illustrate some of the difficulties in conducting country-level spillover analyses using econometric methods, while advancing a broader conception of spillover, based on the defensive purpose of corporation tax.

Third we present a new framework for conducting spillover analysis, that assesses relationships between four direct taxes and a number of administrative and institutional features of tax systems.

Finally, we present initial pilot qualitative assessments for the UK and Denmark, involving scores, risk dashboards and visualisations.

Policy Implications

* Systematic country by country tax spillover analysis should be undertaken in a multilateral process overseen by existing international organisations, with the IMF, the OECD, the UN and the World Bank all feeding into the precise design of the exercise.

* 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 a 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, in a process similar to the corporate governance ROSCs conducted by World Bank Staff. These field notes should translate into a more qualitative style country reports assessing and reporting on tax practices and the spillover risks in the jurisdiction, and should contain targeted policy recommendations.