

## Tax After Coronavirus (TACs) : The tax spillover method...

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TACs

Tax After  
Coronavirus  
Methodology

The [Tax After Coronavirus \(TACs\) project](#) intends to suggest those reforms to the UK tax system that might be necessary to meet the demands of our economy over the coming years whilst simultaneously delivering tax justice. This demands that criteria for appraising the existing tax system be used as the basis for suggesting reform.

Over the last couple of years I have, with my colleague Andrew Baker of the University of Sheffield, put a lot of time and effort into developing a new mechanism to identify the risks that are inherent in any tax system. We call the resulting methodology tax spillover analysis. It was created as part of the EU funded Horizon 2020 [Combating Financial Fraud and Empowering Regulators \(COFFERS\) project](#).

Tax spillovers are the deliberate or inadvertent risks created both within and between tax systems because one part of that system undermines the objectives of another part of that same system or of the tax system of another country.

Examples of tax spillovers are easy to find. For example, tax haven secrecy when coupled with low or no taxes in such places clearly encourages the relocation of money and assets (at least for tax reporting purposes) from the tax jurisdiction to which they really belong to the tax haven. That is, of course, why so much effort has been put into this issue in recent years by the OECD, and others.

There are, however, many more risks that exist. As the methodology makes clear, these can either be domestic, which means that a country's tax system undermines itself; or they can be international in nature and be created by the tax jurisdiction, which is what the tax haven in the previous example does; or they can be imposed from another jurisdiction, as happens to the location that suffers tax haven abuse in that same example. All three risks are rated separately in tax spillover analysis.

The ranking is done on a risk scale from 1 to 5, where 1 mean that the systems are reinforcing of each other, 5 means that they deeply undermine each other, and 3 is broadly neutral.

In pilot studies risks were appraised across eight taxes and features of tax administration, because long observation of the tax systems of many countries suggests that the latter are at least as important to the creation of tax spillover risks as poor tax design is by itself. Those categories are:

- \* Income taxes;
- \* Corporate profits taxes;
- \* Social security (national insurance in the UK context);
- \* Capital gains tax as a proxy for wealth taxes;
- \* The tax politics of the jurisdiction i.e. whether it is supportive of tax compliance and the policies that flow from that, or not (and it is easy to see that tax havens are not supportive of tax in this way and the Nordic states are, for example);
- \* The quality of the tax administration;
- \* The quality of the company and trust administration;
- \* The impact of and commitment to international tax cooperation.

An example tax spillover risk assessment prepared using this methodology for the UK domestic tax system resulted in this spillover risk analysis:

United Kingdom domestic tax spillovers	Issue it has impact on										Sub totals
	Tax spillovers	Income tax	Corporation tax	Capital gain tax	Social security	Tax politics	Tax administration	Company and trust administration	International agreements	Total	
Issue being assessed	Income tax	4	5	5	3	5	5	5	4	36	134
	Corporation tax	3	5	3	3	5	5	5	4	33	
	Capital gain tax	3	4	5	3	5	5	4	4	33	
	Social security	3	5	3	4	4	5	5	3	32	
	Tax politics	3	3	3	3	5	5	5	4	31	
Total	Tax administration	4	4	4	3	5	5	5	4	34	135
	Company and trust administration	4	4	4	4	5	4	5	4	34	
	International agreements	5	5	5	3	4	5	5	4	36	
	Total	29	35	32	26	38	39	39	31	269	269

More information on how this chart was developed can be found [here](#), [here](#) and [here](#).

The chart has been colour coded to indicate risk. Red is maximum risk. Green represents a reinforcing system. The absence of green and the prevalence of red is apparent. The UK tax system deeply undermines itself as a result of having:

- \* lax company regulation that provides significant opportunity for tax abuse;

- \* many varying and deeply conflicting tax rates that provide massive opportunity for tax avoidance;
- \* a weak tax administration that has been starved of resources by successive governments over a period of about fifteen years;
- \* governments that have in recent years been quite hostile to tax compliance. This has been evidenced in particular by support for the UK's many tax havens and by the creation of many arrangements that have provided those with high income and wealth, in particular, the chance to avoid tax.

In the current economic climate this is a matter of considerable significance. It is very likely that the coronavirus crisis will leave the UK government with a considerable financial deficit and an increase in what is described as government debt. There have already been calls for new austerity measures to tackle this issue once the crisis is over. This work shows that this is not the only option available to the government. Simply by tackling the 'low hanging fruit' in the spillover risk assessment the government could raise considerable additional revenues simply by closing the opportunities for abuse within the existing tax system, ensuring as a result that all those who do owe tax do actually pay it. In addition, tax justice could be substantially enhanced and inequality could be tackled.

It is the logic of this methodology that the Tax After Coronavirus (TACs) will be using to underpin its work. Further posts to explain this methodology in more detail will be published soon.