Funding the Future

What is a tax spillover, and why does it matter?

Published: January 12, 2026, 10:30 pm

I was one of 47 academics at City, University of London who had a case study submitted by that university to the Research Excellence Framework (REF) appraisal in 2021. Since less than one in ten academic staff there were selected for this purpose I was delighted to be included. The submission related to my work on tax spillovers, summarised by City here.

The main academic underpinning for this work is here, with links in it to worked examples.

Grades are not advised for individual submissions to the REF, but it is very likely my work was rated 3* based on the published results, meaning that it is likely to have been rated as internationally excellent.

City have asked me to expand the linked webpage as a result. This is how I have explained the significance of this work:

What is a tax spillover, and why does it matter?

A tax spillover is the impact that one part of a tax system has on another part of a tax system, whether in the same tax jurisdiction or in another one. For example, if the corporation tax rate in a country is below its normal income tax rate them there is an artificial incentive to form a company and so save tax. Alternatively, if a country does not charge taxes on income there is an incentive for income to be shifted to that jurisdiction to avoid taxes that might be due in a country that does have taxes on income.

Who wins and who loses from a tax spillover?

The usual loser from a tax spillover is the country that does not collect the tax that it might reasonably expect to be paid to it as a result of the laws that it has in operation.

This can be because that country's own laws undermine its own tax system,

which is a surprisingly common phenomenon. On occasion this can be accidental. Tax systems are usually large and complex and such conflicts can happen inadvertently. On other occasions this is deliberate, often because of short-sighted policy by a government wanting a particular outcome or incentive to apply at a point of time without really considering the overall consequences of doing so.

Alternatively, the spillover can arise because of a country's tax system being undermined by the actions of another jurisdiction. Tax havens deliberately undertake this type of activity. They pursue an activity that is commonly called tax competition. This is a process designed to create tax spillover effects by incentivising the transfer of income, gains and wealth from the jurisdictions where they arise and should be taxed to tax haven locations where they are undertaxed as a consequence. The tax haven wins from this activity as a result of hosting the activities of the lawyers, bankers and accountants who undertake this tax competition activity and who contribute to the local economy as a result. The clients of those lawyers, bankers and accountants obviously hope to gain an advantage as a consequence.

Overall, the greatest cost of this activity is to society at large. If a government requires a certain level of tax to achieve its goals and some exploit tax spillovers to reduce the sums that they should reasonably owe then others, who are more law abiding, pay more tax as a consequence. This creates injustice in society.

This process also undermines fair competition and the level playing field on which it is essential that all business operate if markets are to operate in the best interests of society as a whole. Unfair competitive advantages can be created as a consequence of tax spillovers and this can result in the misallocation of scarce capital within society, with consequent cost to the overall income of all jurisdictions as a result of the inappropriate reallocation of some income to those who have exploited tax spillovers.

How important is it to have Parliamentary support when trying to create research impact in this field?

Parliamentary support for research in this field is not essential because it is possible to undertake a tax spillover impact case study for a jurisdiction using the expertise available in the tax profession, academia, journalism, civil society and elsewhere, as we have proven during the course of our research by completing such case studies. However, if there is to be an effective use of such case studies they would, ideally, be undertaken with parliamentary support so that the decision-making of governments might be influenced to reduce the likely impact of tax spillovers on a society.

How does your research change development funding for low-income countries?

Low-income countries suffer very high rates of tax spillover for a number of reasons.

One is that they tend to have very limited resources available to them to collect taxes, which is an issue that tax spillover assessments consider. As a consequence, domestic taxation payable in many jurisdictions is not settled because there are very large informal economies in many low-income countries. Ultimately, this is counterproductive because public goods of benefit to society as a whole are not provided.

Another tax spillover consequence for many low-income countries arises because of the impact of international tax competition. It is widely acknowledged, including by the Organisation for Economic Cooperation and Development, that many low-income countries lack the depth of resources required to defeat tax competition from tax havens despite recent innovations in international taxation, including the introduction of country-by-country reporting by multinational corporations and the introduction of automatic information exchange from tax havens to low-income countries that should disclose income paid in the tax haven to persons resident in the low-income country. In most cases this is, again, because of a lack of resources to use the information that might now be available.

Tax spillover assessment does not solve the problem of a lack of resources. However, what it does do is highlight the very particular problems that low-income countries face in this regard. In addition, because all tax spillover assessments rank the risks that a jurisdiction faces as a consequence of tax spillovers they do highlight those areas requiring most immediate attention and can also be used as a method for ranking the most effective rate of return on resources to be allocated to achieve higher levels of tax paid. This is a particular priority in low income countries and could provide a substantial benefit to them as a consequence, including in making claims for additional resources from international agencies such as the World Bank, who are inclined to support such programmes when evidence is available of the benefits that might arise.

What stands out for you as the most impactful consequence or legacy of this research?

This research is, as yet, incomplete, and as a result work on it is progressing.

The work continues to inform the activities of Global Initiative for Fiscal

Transparency, who have now published a set of principles for high-level tax transparency based upon it.

Discussion on tax spillover is also taking place with the Organisation for Economic Cooperation and Development, whilst the World Bank and International Monetary Fund continue to engage on it. The idea has recently attracted attention within the European Parliament as a mechanism for identifying risk both with regard to tax abuse and abuse from illicit financial flows which often exploit the mechanisms created for tax abuse purposes.

The hoped-for outcome is that tax spillover assessments will be adopted in due course as a tool to help appraise the effectiveness of tax systems so that they might better achieve the benefits for society that are their essential purpose.