

Institution: City, University of London (City)		
Unit of Assessment: 19 Politics and International Studies		
Title of case study: Tax Spillovers in Global Civil Society: Building Understanding and Changing Policy		
Period when the underpinning research was undertaken: 2017-2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s): Richard Murphy	Role(s) (e.g. job title): Professor of Practice	Period(s) employed by submitting HEI: 2015-2020
Period when the claimed impact occurred: 2017-2020		
Is this case study continued from a case study submitted in 2014? No		
1. Summary of the impact (indicative maximum 100 words)		
<p>The combined efforts of Murphy and his co-author Baker (at the University of Sheffield) have resulted in a new qualitative methodology for evaluating tax spillovers, i.e. the negative impacts that tax policies can create. Prior to this development, the only available appraisal tools were econometric. Since the introduction of their Baker-Murphy framework, a civil society policy consensus has been agreed as to the need for qualitative multi-lateral evaluation that reduces harmful tax spillovers and protects fiscal sovereignty. Moreover, Action Aid, the Global Initiative for Financial Transparency (GIFT), Oxfam, and the Tax Justice Network have all called for an adoption of the framework. GIFT – backed by the Organisation for Economic Co-operation and Development (OECD), World Bank and International Monetary Fund (IMF) – deems the framework central to its own continuing work on improving tax transparency.</p>		
2. Underpinning research (indicative maximum 500 words)		
<p>Tax spillovers are the adverse effects that one country's tax rules and practices have not only on other aspects of that country's own tax system but also the tax system of other countries. What tax spillover analyses provide are the tools to identify the reasons why tax gaps arise. These gaps are the difference between the amount of tax a jurisdiction collects and the amount its tax authority thinks would be collected if its laws were adhered to by all taxpayers. Tax spillover analysis is a tool to assist governments in finding their missing revenues and should be considered a key tool within fiscal management.</p> <p>The UK tax gap is about 10% of its tax revenues each year. In Italy it is thought to be 25%. In developing countries, it can be higher still. If only 10% of the gap could be recovered the impact would be dramatic. The Baker and Murphy methodology ranks areas of concern within tax spillover analyses thereby enabling tax authorities to critically identify "low-hanging fruit" and improve their tax yields [3.1a, 3.1b].</p> <p>Research into national and international tax abuse and the impact it has on tax revenues of countries was relatively rare before the global financial crisis of 2008 (Picciotto, 1992; Palan, 2003 being notable exceptions). That changed because of pressure from, and research by, Baker and Murphy, who began to see this as a new issue in macroprudential regulation of the international economic framework [3.1a].</p> <p>The concept of tax spillover analysis was created by the International Monetary Fund (IMF) in 2014 in an econometric paper that only considered it regarding international corporate taxation issues. The issues raised were significant, but lack of data limited any significant use of the IMF approach. In 2017, Baker and Murphy first proposed evaluating such spillovers using a qualitative</p>		

methodology in a paper written for the UK's All Party Parliamentary Group (APPG) on Inclusive Growth [3.2, also presented as evidence of impact as 5.2].

This qualitative methodology was developed to overcome problems with quantitative approaches arising from lack of data and the 'noise' within that data that limited its use. Baker and Murphy undertook this work as a result of an invitation from Oxfam whose concern for domestic as well as international resource mobilisation meant that they wished to see if a tax spillover approach could be added to this issue when it was already attracting some international attention [3.2].

The framework has three primary objectives: the first is to capture many of the things missed by more quantitative approaches. Secondly, it identifies, evaluates and discourages forms of tax competition that potentially harm other states, rather than simply suggesting that it might exist, as quantitative analysis does. Thirdly, it actively identifies those aspects of the tax system being appraised that undermine its effectiveness. The consequence is that it always delivers recommendations for change [3.1a].

The assessment procedure [3.1b] and pilot study [3.1c] identified three forms of assessment that comprehensive spillover evaluations should include, i.e. domestic spillovers; international risks generated, and vulnerability to international spillovers. It appraised evidence from stakeholder interviews and surveys as well as analysis of formal laws and regulations by assessors likely to be from an international organisation or experienced non-governmental organisation (NGO) and captured domestic and international spillover risks via grids that appraise risk. The aim of this approach was to indicate in what areas problems existed, and their severity, assisting consequence calls for action to address them.

The research concluded that systematic country-by-country tax spillover analysis should be undertaken in a multilateral process ideally overseen by existing international organisations [3.3]. The IMF, OECD, and World Bank all undertake reviews on this basis on other issues where international peer review of standards and systems is considered of use; the Baker-Murphy toolkit builds on such methods. It enables NGOs, international organisations, and governments to compare and rank countries' tax practices in terms of tax competition risks generated and vulnerabilities to revenue losses.

In June 2018, Baker and Murphy presented pilot spillover evaluations for the UK and Denmark. The UK was found to be a poor performer compared to Denmark, both domestically and internationally [3.1b]. In particular, the Danish tax system was integrated: policy objectives appeared to influence system design in a way that delivered a cohesive whole which appeared absent in the case of much of the UK tax system [3.4].

Baker and Murphy then applied the toolkit to the UK to produce the first full-length qualitative spillover assessment for any country in the world [3.1c]. The report highlighted thirteen policy reform recommendations that would reduce the spillover risks generated by the UK tax system. The most marked risk revealed was the vulnerability of the UK tax system to weaknesses in the supply of data on corporate activity in the country due to ineffective enforcement of company law.

3. References to the research (indicative maximum of six references)

- 3.1 Baker, A. and Murphy, R. (2019). The Political Economy of 'Tax Spillover': A New Multilateral Framework, *Global Policy*, 10:2, pp.178-192. <https://doi.org/10.1111/1758-5899.12655>
(a) Article
(b) Supporting Information; Data S1. Tax Spillovers: The Assessment Procedure
(c) Supporting Information; Data S2. A Tax Spillover Assessment for the United Kingdom.

- 3.2 Baker, A. and Murphy, R. (2017). All Party Parliamentary Group on Inclusive Growth (APPG) Report, *Tax Spillover: A New Framework*, 14 March 2017. Available from: https://www.inclusivegrowth.co.uk/appg_publications/tax-spillover-new-framework/
- 3.3 Baker, A and Murphy, R (2020). Creating a Race to the Top in Global Tax Governance: The Political Case for Tax Spillover Assessments, *Globalizations*. <https://doi.org/10.1080/14747731.2020.1774324> Published online 12 June 2020.
- 3.4 Baker, A. and Murphy, R. (2020). Modern Monetary Theory and the Changing Role of Tax in Society, *Social Policy and Society*, Vol.19:3, pp.454-469. <https://doi.org/10.1017/S1474746420000056>
- 3.5 Baker, A. and Murphy, R. (2020). *Making Tax Work: A Framework for Enhancing Tax Transparency*, World Bank/GIFT. Available on request.

Global Policy has a TR Impact Factor of 1.238; *Globalizations* has a TR Impact Factor of 1.614; *Social Policy and Society* has a TR Impact Factor 1.685.

4. Details of the impact (indicative maximum 750 words)

Murphy's blog on tax research, read 2.5 million times in 2017 and with a readership of 3.1 million in 2020 [5.1a, 5.1b], and the Baker-Murphy framework has grown out of concern from civil society on the issue of taxation; their joint body of work has been informed by close cooperation with the aforementioned organisations as well as Tax Justice UK and Eurodad (European Network on Debt and Development), a civil society network advocating for fair financial and economic systems supported by the European Commission, Gates Foundation, and others. Together, these organisations are the most active and influential campaigners on addressing tax related issues and it is this consensus building amongst civil society actors which demonstrates the impact of Baker and Murphy's research.

In the foreword to the 2017 All Party Parliamentary Group report [3.2], Rt. Hon Liam Byrne MP wrote "*This paper sets out a new framework for calculating the economic damage of a global race to the bottom on tax. It needs urgently to be finessed and tested and applied.*" Byrne noted at the time the important point that "*tax is about much more than revenue raising; it is an instrument in broader economic and social policy*" [5.2].

Following meetings and workshops with three NGOs (Oxfam, Action Aid, Eurodad), political support for the framework was secured. ActionAid subsequently called for new policy drafting and endorsed a broad qualitative approach to spillover that drew on the Baker-Murphy approach [5.3, p.11]. The ActionAid Policy writer noted the influence this framework had on his work for ActionAid as well as how it has "*influenced the thinking and approach of GIFT to tax transparency*" [5.4]. The NGOs responded to an IMF consultation on the future of corporation tax in December 2018 by calling for international organisations to begin conducting qualitative country level spillover evaluations using the Baker-Murphy framework. Oxfam went so far as to write it was "*concerned that developing countries are particularly affected ... and therefore support further analysis of spillovers in corporate tax. The Baker-Murphy framework uses a qualitative approach to complement analysis based on secondary data. Such analysis could be adapted by the IMF directly*" [5.5]. Baker and Murphy are referenced at page.3, footnote 24; p.30, footnote 32 (Eurodad); p.88, footnote 1. These NGOs could not have provided a positive alternative to the IMF without the Baker-Murphy framework and so could not have sought to influence the development of IMF work in this area without the contribution of Baker and Murphy.

Encouraged by the IMF and GIFT, Baker and Murphy contacted international organisations with an interest in this area to promote the urgent need for tax spillover evaluation. They spoke to senior staff at the IMF on 14 January 2019 and presented their ideas to the Socialists and Democrats Group in the European Parliament which presented a fair tax policy document to the European Commission on 6 March 2019. The key policy recommendation in the report notes: "*The*

EC, with the help of member states, should commit to produce tax spillover analyses of the type recently proposed by Baker and Murphy” [5.6, p. 23].

According to the Chair of the Board of the Tax Justice Network, the framework “*delivers ... [by generating] intelligible risk scores and dashboards [thereby] identifying specific measures to overturn [the race to the bottom]” and is a “game-changer ... in illuminating the causes of the race to the bottom [which is] harming developing countries, reducing their tax revenues and fiscal policy space”*. He further explains that this toolkit will “*increase the capacity of NGOs and other civil society actors to hold governments more accountable for their tax policies” [5.7].*

World Bank-funded organisation, GIFT, indicating that “*a spillover assessment could definitely increase the information about a tax system in a country ... and therefore, applying its methodology would help to identify the areas where more information is needed” [5.8a]* commissioned Murphy and Baker as consultants to help countries understand the tax revenue cycle and set principles and good practices for NGOs [3.5]. GIFT works with civil society stakeholders and national governments (including those in the Philippines, Brazil, and Mexico) to “*contribute to a more open, inclusive and coherent global architecture of fiscal transparency norms”*. In collaboration with GIFT, the International Budget Partnership organisation in Washington D.C. is inputting Baker and Murphy’s research as a tool that represents a ‘gold-standard’ level of tax transparency into their Tax Equity Initiative [5.9] and in keeping with GIFT’s philosophy to “*develop and generate public goods such as information and reporting requirements that improve economic governance”*. The Director of the Global Initiative for Fiscal Transparency states the significance of their Baker-Murphy contribution as providing “*a route map for increasing civil society participation in tax policy around the world” [5.8b].*

5. Sources to corroborate the impact (indicative maximum of 10 references)

- 5.1** (a) Murphy’s tax blog – <https://www.taxresearch.org.uk/Blog/>
(b) Summary view statistics. (02.09.21).
- 5.2** Baker, A. and Murphy, R. (2017) Tax Spillover: A New Framework, All Party Parliamentary Group on Inclusive Growth Report. Available from:
https://www.inclusivegrowth.co.uk/appg_publications/tax-spillover-new-framework/
- 5.3** Action Aid (2018). Stemming the Spills: Guiding Framework for National Tax Spillover Analyses. <https://actionaid.org/publications/2018/stemming-spills>
- 5.4** Testimonial from Policy Writer for ActionAid. (27.11.20).
- 5.5** International Monetary Fund (2019) Analysis of International Corporate Taxation: Action Aid.
<https://www.imf.org/external/np/exr/consult/2018/corptaxation/pdf/2018commentscorptaxation.pdf>
- 5.6** European Socialists and Democrats Group (2019) Fair Tax policy document.
<https://www.socialistsanddemocrats.eu/publications/fair-tax-report>
- 5.7** Testimonial from Board Chair of the Tax Justice Network (27.11.20).
- 5.8** Testimonial from Global Initiative for Fiscal Transparency (GIFT)
(a) email from Director (7 August 2020).
(b) letter from Director (November 2020).
- 5.9** Testimonial from Senior Research Fellow, International Budget Partnership, Washington D.C. (24 November 2020).