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THE TAX BURDEN ON BANKS OVER THE PERIOD 2006-2014

by Giacomo Ricotti[♦], Marco Burroni*, Vincenzo Cuciniello[♣],
Elena Padovani[♦], Elena Pisano [♦] and Stefania Zotteri[♠]

Abstract

Following the establishment of the Single Supervisory Mechanism (SSM), concerns about having a level playing field become more important due to the heterogeneity in bank taxation rules across Europe: measuring the tax burden can provide a first rough measure of the extent of heterogeneity across countries. After a review of the main differences in banks taxation between Italy, France, Germany, Spain and the UK, the paper provides estimates for the tax burden and deferred tax assets in these countries over the years 2006-2014; the impact of differences in taxation on bank profitability is also examined. Moreover, the paper carries out a more in-depth analysis of Italian banks by considering both individual balance sheet data and aggregate tax return data. The impact of tax measures on financial stability and on profitability is further analysed. The comparative analysis points to a wide heterogeneity across countries in the tax treatment of the banking sector. This suggests that it would be advantageous to explore possible ways to make the tax systems of the countries participating in the SSM more homogeneous; a first step could be to harmonize tax bases.

JEL Classification: G21, H25, H87, K34.

Keywords: banking, taxation.

Contents

[♦] Bank of Italy, Tax Directorate*. Bank of Italy, Regulations and Macroprudential Analysis Directorate[♣]. Bank of Italy, Financial Stability Directorate[♠]. Bank of Italy, Structural Economic Analysis Directorate. The authors are grateful to the Italian Ministry of Economy and Finance – Department of Finance for kindly providing tax return aggregate data. The analysis and conclusions expressed herein are those of the authors and should not be attributed to the Bank of Italy.

1. Introduction

The financial crisis has brought about the need for an overall assessment of public policies concerning the financial sector. This paper contributes to this evaluation by focusing on taxation (among policy tools) and on banks (among financial intermediaries).

The debate has focused on three main issues: the interaction between financial regulation and the taxation of the financial sector as two either alternative or complementary tools for pursuing financial stability; the extent to which taxation contributed to (financial) instability via the preferred tax treatment of debt financing as opposed to equity financing; and the possibility of increasing financial sector taxation to compel financial intermediaries to make a fair contribution to the economy, where 'fair' refers to compensating for the externalities banking activities can generate. In addition, following the establishment of the Single Supervisory Mechanism, concerns about having a level playing field become more important due to the heterogeneity in bank taxation rules across Europe.

Measuring the tax burden on Italian banks is crucial for answering these questions and for assessing where our system stands as compared with our main competitors. In addition, measuring the tax burden and some of its components can provide a first rough measure of the extent of heterogeneity across countries.

After a review of the main differences in bank taxation between Italy, France, Germany, Spain and the UK, the paper provides estimates for the tax burden in these countries over the years 2006-2014.[1] The analysis builds on Ricotti et al. (2010)[2] – which, *inter alia*, computes the tax burden on banks for the period 2000-09 – and further develops it by taking into account recent tax changes and the most recent topics under discussion in the economic policy debate. The impact of differences in taxation on bank profitability is also examined. Moreover, we offer an overview of the evolution of the tax burden and deferred tax assets (DTAs) over the period 2006-2014 based on financial statement data.

The paper also carries out a more in-depth analysis of Italian banks by considering both individual balance sheet data and aggregate tax return data for the period 2008-2012. The impact of tax measures on financial stability and on profitability are further analysed.

The paper is organized as follows. Section 2 deals with international comparisons: it describes the main tax rules that apply to banks across five national jurisdictions and it provides estimates of the tax burden on banks and of the amount of DTAs, relying on financial statement data. Section 3 focuses on Italian banks: first, it provides an analysis of the effects of the relevant tax rules based on the tax return data of all Italian banks, then it estimates the evolution of the tax burden and DTAs of the entire banking sector using financial statement data. Section 4 sets out the conclusions.

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[1] The analysis proposed here disregards shifting issues, focusing on formal incidence only. The results on the economic incidence of taxation of the financial sector are not unanimous about the degree of forward shifting. See, among others, Demirgüç-Kunt and Huizinga (1999; 2001), Cardoso (2003), Albertazzi and Gambacorta (2010).

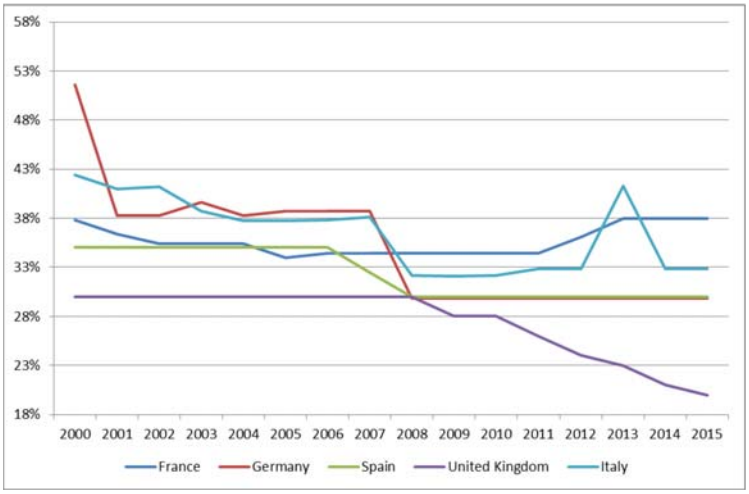
[2] Ricotti, G., Pinelli, V., Santini, G., Santuz, L., Zangari, E., Zotteri, S., (2010) 'La pressione fiscale gravante sul sistema bancario: questioni metodologiche ed evidenze empiriche', Banca d'Italia, *Questioni di Economia e Finanza* no. 80.

2. An international comparison

2.1. Differences in tax rules[3]

The comparison of statutory tax rates shows that the Italian overall rate is broadly in line with those of the main European countries with the notable exception of the United Kingdom, whose rate is significantly lower (Figure 1 and Table A.2.1 in Annex 2).

Figure 1: Statutory tax rates(*)



Source: Eurostat, Taxation trends; for 2014 and 2015, IBFD database.

(*) For Italy and Germany the tax rate includes local taxes, respectively IRAP and *Gewerbesteuer*, as their tax bases are comparable to that of corporate income tax. Moreover, for Italy, tax rates are adjusted for the 10 per cent deductibility of IRAP from the corporate income tax enacted in 2008. In the UK the tax year begins in April.

Concerning the corporate tax base, in 2014 Italy demonstrates advantages and disadvantages compared with its European counterparts.

On the one hand, Italian banks – like all other non-financial firms – benefit from an allowance for corporate equity (ACE) system (a deduction of the notional return on equity), which is not available in the other countries analysed in the period under consideration; Spain introduced an ACE system in 2015. Moreover, in Italy there is no bank levy (i.e. a tax charged on certain types of equity or liability and based on their riskiness) while, following the financial crisis, all the other countries considered except Spain introduced this kind of levy.[4]

On the other hand, while most of the countries analysed allow a straightforward deduction of loan losses and write-downs in the tax period they occur, Italy and Spain impose stricter conditions either on the deductible amount (Spain) or on the timing of the deduction (Italy). After several

[3] For details, see Annex 1.

[4] However, this heterogeneity has been significantly reduced in 2016 as a result of the Bank Recovery and Resolution Directive (BRRD), which requires member states to raise a contribution similar to a bank levy. The contribution is calculated on the aggregate liabilities (excluding own funds) less guaranteed deposits and is adjusted in proportion to the risk profile of the bank.

legislative changes, Italy has introduced the full and immediate deductibility of loan losses and write-downs, which will apply as from 2016.[5] Moreover, bank interest expense is not fully deductible (only 96% of the amount is deductible)[6] in Italy alone. In addition, with regard to the tax base of the regional tax on productive activities (IRAP), it should be noted that: dividends are subject to partial double taxation; interest expense, depreciation and amortization and general expenditures are only partially deductible; moreover, up to 2013, loan write-downs were not deductible at all.

Mainly because of tax rules on loan losses and write-downs, Italian and Spanish banks report a large amount of DTAs (see Section 2.2). In order to prevent the deduction of these DTAs from Common Equity Tier 1 (CET1) as set out in the European Capital Requirements Regulation (CRR), both countries enacted ad hoc laws that – in line with the provisions of the CRR – permit the conversion of DTAs into tax credits under specific conditions. A comparative regulatory disadvantage has thus been removed.

2.2. Differences in the tax burden

The analysis covers a cross-section of banks resident in Italy, France, Germany, Spain and the UK over the period 2006-2014.

Data. – Accounting data are drawn from BANKSCOPE, which provides information on a broad range of bank-level characteristics: pre-tax profit, tax expenses, total assets, equity and dividend income. Individual (i.e. non-consolidated and non-aggregated) financial statement data are considered.

Focusing on commercial banks only, we end up with a sample of 740 intermediaries distributed as follows: 185 in France, 201 in Germany, 163 in Italy, 62 in Spain and 129 in the UK. The sample is open: the number of banks that enter or exit the sample each year depends on whether certain conditions hold. In particular, in order to focus on a 'normal' tax year, for each bank we disregard:

- tax years where taxes are negative;
- tax years where profits are negative, since they are a proxy for tax losses. As tax rules usually permit tax loss carry-forward, a negative taxable income can be offset by positive profits arising in the following years. For this reason, the years until the loss is completely reabsorbed are disregarded too.[7]

Methodology. – In order to measure the tax burden, a backward-looking indicator is computed on individual bank financial statement data, specifically on the ratio of taxes to the difference between pre-tax profits and dividends accrued during the tax year. Dividends received by banks and other subsidiaries of the banking group are excluded from the denominator in order to provide a better

[5] The provision for immediate deductibility not only eliminates a competitive handicap for Italian banks internationally, but also makes more prudent loan valuation policies less costly (Banca d'Italia, 2015).

[6] Interest expense will become fully deductible as from 2017.

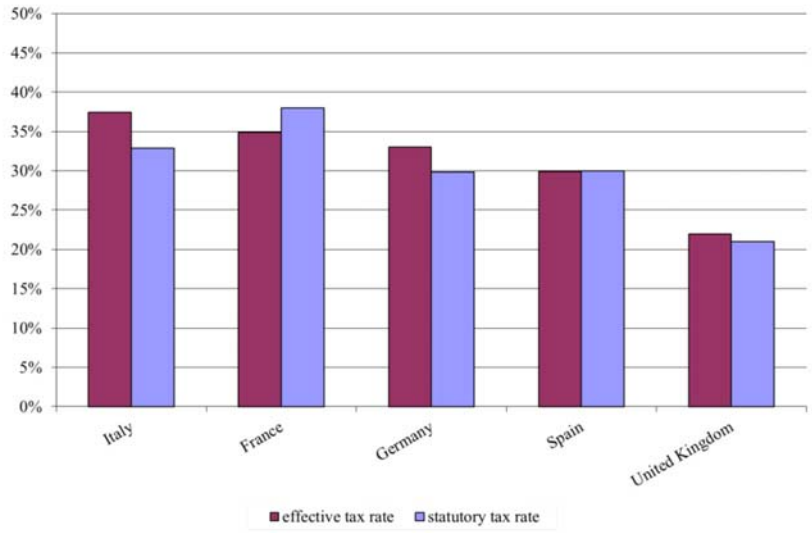
[7] For details on loss carry-forward systems in the countries considered, see Annex 1.

proxy for effective income (i.e. in order to avoid double counting).[8] We refer to income taxes reported in the income statement, which includes deferred taxes, but excludes other types of taxes, such as indirect taxes. This could lead to an underestimation of the actual tax burden in countries where certain income taxes are reported among other costs rather than under a dedicated item (usually accounted for after 'gross profit before tax').[9] This different accounting method would reduce the value of both taxes and profits by the same amount, thereby leading to a smaller tax burden.

The indicator is computed for each bank. We refer to the median value in each country as a representative statistic for the system as a whole.[10]

Effective and statutory tax rates. – In 2014 Italy was the country with the highest effective tax rate, equal to 37.4 per cent, while the corresponding statutory tax rate stood at 32.9 per cent (Figure 2). The other countries showed levels of taxation that did not exceed 35 per cent, with a low of 22 per cent in UK.

Figure 2: Effective and statutory tax rates in 2014



Source: Based on BANKSCOPE data.

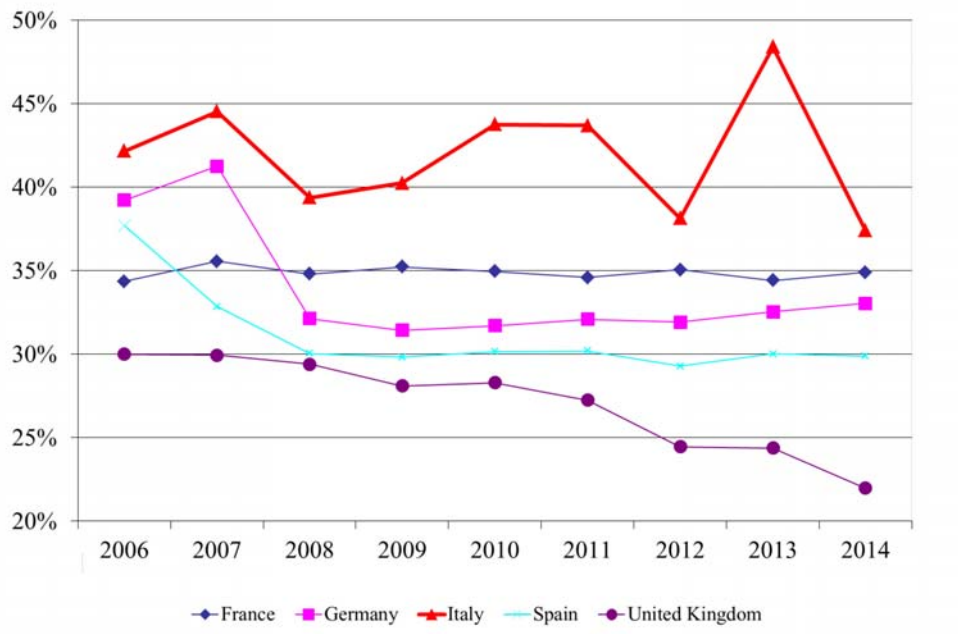
The effective tax burden in Italy was also higher over the period 2006-2014 than in the other countries (Figure 3; Table A.2.2 in Annex 2). Effective taxation has declined over time in Germany, Spain and the UK, while in France it has remained stable.

[8] For methodological details, see Ricotti et al. (2010).

[9] This is the case, for instance, in France where the *taxe professionnelle* and the *taxe sur les salaires* are included among administrative costs.

[10] The median is less affected than the average by outliers in the sample.

Figure 3: Effective tax rates



Source: Based on BANKSCOPE data.

Focusing on Italy, several tax measures over the period 2006-2014 have affected both the tax base and the tax rate and may account for the differences between the effective and legal rates. The most significant are (Figures 1 and 3; Tables A.2.1 and A.2.2 in the Annex 2; see also Section 3.2 for additional details):

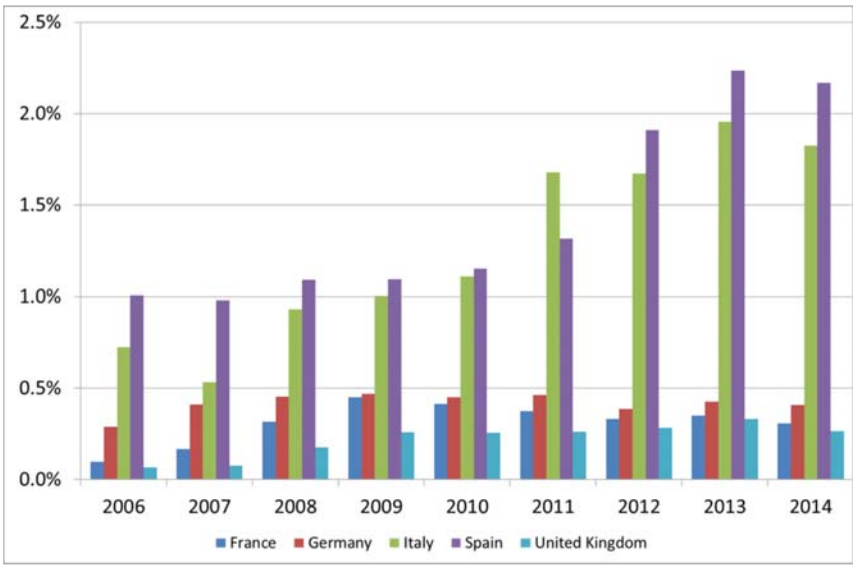
- the limit on interest expense deductibility introduced in 2007 in computing the IRAP base and in 2008 in computing the corporate income tax (Ires) base;
- the reduction in the Ires and IRAP tax rates in 2008; the rate change led to the reassessment of DTAs in 2007, resulting in a write-off of a considerable amount of DTAs recognized in previous years and thus in an overall increase in accrued taxes in 2007;
- the introduction in 2008 of an optional realignment of the accounting and tax values for goodwill against the payment of a substitute tax;[11] banks chose this option in 2008 and in the following years. In the year the option was exercised, the realignment led to the recognition of a significant amount of DTAs that lowered the amount of accrued taxes.
- the extraordinary 8.5 per cent Ires surcharge applied in 2013 to banks, other financial intermediaries and insurance companies;
- the compulsory substitute tax on the revaluation of Italian central bank shares levied on banks which was accounted for in income statements in 2013 (12 per cent) and in 2014 (14 per cent).

Deferred tax assets. – The DTAs-to-total-assets ratio[12] in Italy and in Spain is significantly higher compared with the other countries (Figure 4).

[11] See notes 27 and 28 for details on the goodwill realignment regimes.

[12] With regard to DTAs, consolidated data are considered, as the analysis cannot be carried out for unconsolidated data because of the limited number of observations. The sample includes 274 banking groups.

Figure 4: Ratio of DTAs to total assets



Source: Based on BANKSCOPE consolidated data.

This ratio followed a different pattern over time across countries. Since the onset of the crisis, the level of the DTA ratio has remained fairly constant at 0.3 per cent in the UK and France, has slightly decreased in Germany to 0.4 per cent and has doubled in Italy and Spain, respectively to 1.8 per cent and 2.2 per cent in 2014. This dynamic is related both to the severe impact of the crisis on non-performing loans in Italy and Spain and to the differences in the tax deductibility of loan losses and write-downs across these jurisdictions. As Section 3.2 points out, loan write-downs are the main determinants of the rise in Italian DTAs observed in 2011 and 2013. Since 2008, goodwill realignment regimes have also contributed to that increase. By the same token, the DTAs of Spanish banks arise from the different tax and accounting treatment of certain expenses/impairment (loan-loss provisions and allowances and contributions to welfare and early retirement schemes).

The effect of taxation on profitability. – For a given pre-tax return on equity (ROE), an increase in the tax burden leads by definition to a lower after-tax ROE. In order to assess the effect of taxation on bank profitability, we consider – for each year and for each country as a whole (i.e. for all banks) – an indicator based on the difference between before-tax and after-tax ROE.

We take a country as benchmark and refer to the following indicator, which measures the average effect of taxation on a country vis-à-vis that benchmark country, regardless of the absolute level of bank profitability in either of the two countries:

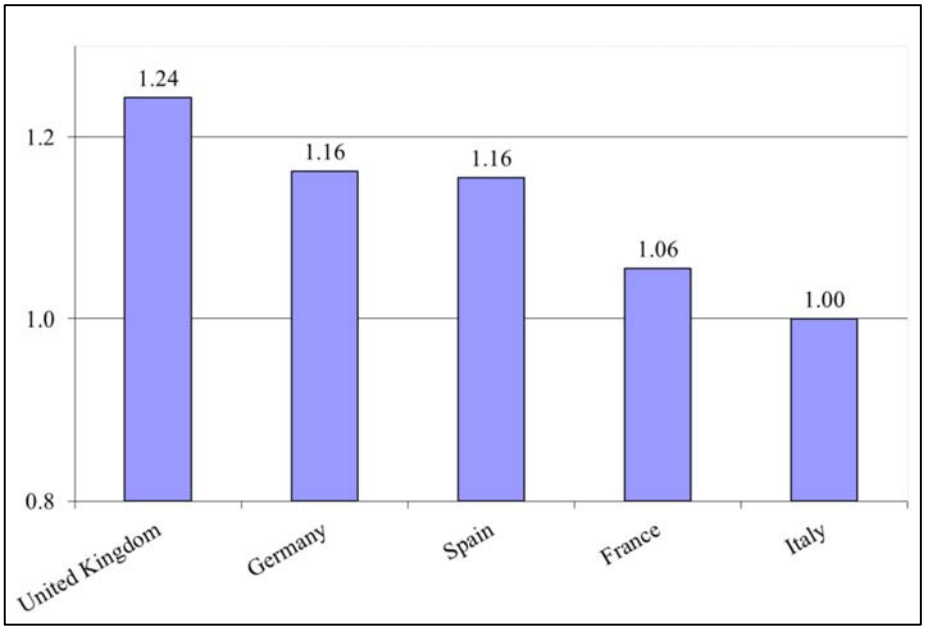
$$\left|\left(\frac{\mathrm{ATRj}}{\mathrm{ATRi}}\right):\left(\frac{\mathrm{BTRj}}{\mathrm{BTRi}}\right)\right|,$$

where ATR_j and BTR_j denote respectively the average level of after-tax ROE and before-tax ROE in country j. The corresponding indexes for benchmark country i are ATR_i and BTR_i. The above indicator measures to what extent the difference in the tax burden affects the difference in the after-tax profitability of two banks operating in different countries.[13]

[13] In other words, it gives the difference between *ATRs* with given equal *BTRs*.

Figure 5 shows the impact of taxation on bank profitability taking Italy as the benchmark country: other things being equal, the Italian tax system reduces after-tax ROE more than systems in other countries.[14]

Figure 5: Ratio of after-taxes to before-taxes ROE vis-à-vis Italy in 2014



Source: Based on BANKSCOPE unconsolidated data.

Consider for instance the case in which an Italian bank and a German one have the same before-tax ROE. In 2014 the after-tax ROE of a German bank is 16 per cent greater than in Italy, i.e. if the before-tax ROE is equal to 10 per cent both in Italy and in Germany, the after-tax ROE is 7.2 per cent in Germany, while in Italy it is equal to 6.2 per cent. Alternatively, assuming that the before-tax ROE in Germany is smaller, for instance 8 per cent (i.e. 2 percentage points below the before-tax ROE in Italy, which is still equal to 10 per cent), while in Italy the after-tax figure is still 6.2 per cent, in Germany it turns out to be 5.8 per cent, thereby eliminating the initial after-tax ROE difference through comparative tax advantage.

3. The taxation of Italian banks

3.1. An analysis of tax return data

This Section poses a counterfactual exercise based on tax return data for the whole Italian banking sector:[15] what would Italian banks have paid if certain tax rules which are unique to Italian banks and ACE were not in place? More specifically, we consider Ires rules regarding loan write-downs,

[14] As $\left(\frac{ATRj}{ATRi}\right):\left(\frac{BTRj}{BTRi}\right) = \left(\frac{ATRj}{BTRj}\right):\left(\frac{ATRi}{BTRi}\right)$, the ratio of after-tax ROE to before-tax ROE across countries can be rewritten in terms of the Italian indicator, i.e. $\frac{\mathrm{ATRi}}{\mathrm{BTRi}} = 1$, where the *i*-country is Italy. Values greater (smaller) than one in country *j* point to an after-tax ROE less (more) curtailed by taxation in country *j* as compared with Italy.

[15] Data were kindly provided by the Finance Department of the Ministry of Economy and Finance and refer to ATECO sector 64.19.10 "Intermediation of monetary institutions other than Central Banks". Only aggregate data were provided.

interest expense and the ACE system, and IRAP rules on the limited deductibility of some items. Due to data availability, the estimates only cover the years 2008-2012.

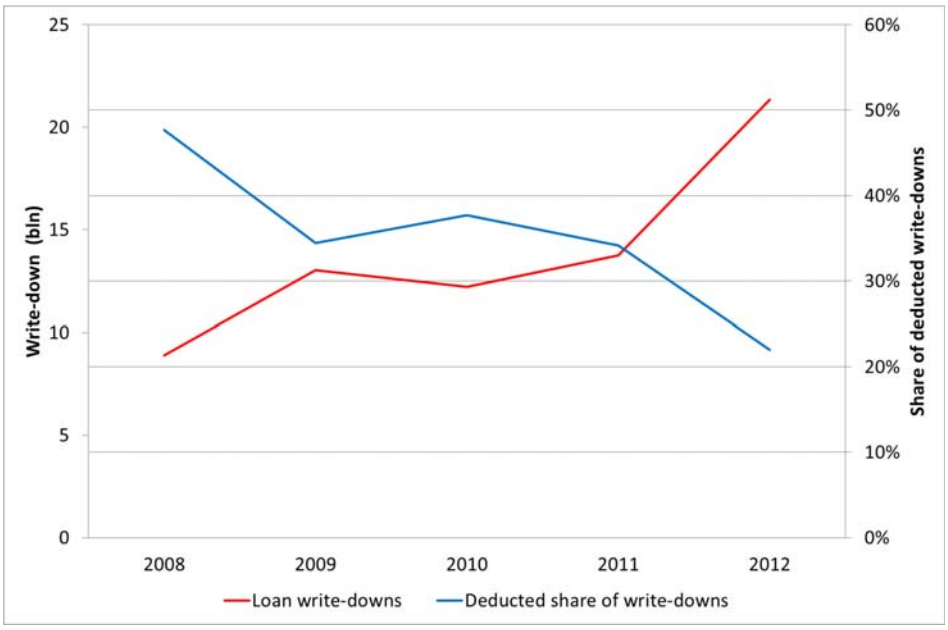
Most tax measures have an impact on both accrued and cash taxes, affecting the tax due and, at the same time, the net profit/loss. Other tax measures involve only a cash effect because they only generate timing differences; they affect the amount of taxes paid in a year but, due to the DTA adjustments made in the income statement, they do not have any impact on net profit/loss. The tax rules on loan write-downs, for example, do not have any effect on accrued taxes, except for the opportunity costs of deferred deductibility.

In the following analysis, we first explore tax measures that have only cash effects, then look at other tax measures. Finally, the effects of the latter measures on financial stability and profitability are estimated.

Cash effects

Loan write-downs (Ires). – Tax rules on loan write-downs that came into force over the period 2008-2012 allow a limited immediate deduction from the Ires base of the credits recognized in the balance sheet, equal to a threshold amounting to a specific share,[16], and a deferred deduction of the excess portion. Because of such provision, coupled with the severe financial crisis, the deducted portion of write-downs sharply decreased from nearly 50 per cent of total write-downs in 2008 to slightly above 20 per cent in 2012. This trend mirrors the amount of total write-downs, which skyrocketed from €8.9 billion in 2008 to €21.3 billion in 2012 (Figure 6).

Figure 6: Share of deducted loan write-downs and amount of loan write-downs



Source: Based on tax return data (Ministry of Economy and Finance – Finance Department).

[16] From 2008 to 2012 it was 0.3 per cent.

This provision results in a noticeable amount of additional – although temporary – taxes paid in each period ranging from €1.3 billion to €4.6 billion over the period 2008-2012.[17] The ratio of non-deductible write-downs to the Ires base passed from 28.8 per cent in 2008 to between 70 per cent and 80 per cent in 2010 and 2011, to finally reach 124.9 per cent in 2012.[18] In 2012 the size of the write-downs exceeded the amount of the tax base, suggesting that – if fully deductible – little corporate tax would have been owed by the banking sector.

Accrual effects

Loan write-downs (Ires and IRAP). – The limits on the deductibility of write-downs on loans, while not having any effects on accrued taxes *per se* due to the accounting treatment of DTAs, entail, over the years considered, the advance payment of taxes to the Treasury, which are then recovered over the next 18 years. These DTAs are non-interest bearing assets and involve an opportunity cost equal to the interest that could be earned by investing the same amount in the market.[19]

DTAs gross of tax opportunity cost passed from €47 million in 2009 to about €300 million in 2012 (Table 1).

Overall, the deferred deductibility of write-downs from Ires would have led to a decrease in net income in the order of €33 million in 2009 to over €200 million in 2012.

Table 1: Opportunity cost of deferred deductibility of loan write-downs

	2009	2010	2011	2012
DTA on loan write-downs	4,042	3,447	8,759	12,257
Free-risk rate (%)	1.2	1.3	3.1	2.5
Gross interest revenues	48	45	274	301
Taxes (Ires and IRAP)	15	14	88	97
Opportunity cost	33	31	186	205

Source: Italian banks' supervisory reporting. Millions of euros.

Interest expense (Ires). – Interest expense sharply decreased from over €100 billion in 2008 to €51.9 billion in 2009, reflecting the shrinking of the interbank market. As a consequence, the non-deductible interest expense declined markedly, from €3 billion in 2008 to €1.5 billion in 2009, remaining stable in subsequent years. Therefore the additional tax burden also considerably declined from €830 million to just over €420-430 million in the period 2009-2012. Consequently, the ratio of non-deductible interest expense to the tax base peaked to 18.6% in 2008 and then declined to values ranging from 9 per cent to 15 per cent (Table 2).

[17] The estimates represent the upper bounds: they are computed without considering possible tax losses that have occurred that could have lowered the amount of taxes paid.

[18] In absolute terms non-deductible write-downs increase from €4.7 billion to €16.6 billion.

[19] The estimation of the effect on the income statements for 2009-2012 is based on data collected from supervisory reporting on the stock of deferred tax assets resulting from loan write-downs. The year 2008 is not considered because of data availability problems. The DTA opportunity cost is estimated conservatively by applying a risk-free rate for a one-year investment time horizon (i.e. the yield from one-year Italian government bonds; source: Datastream). It takes into account taxes paid on interest income/revenue (Ires and IRAP, regional rate surcharges included) and a deduction of 10 per cent of IRAP from the Ires tax base.

Table 2: Interest expense (Ires)

	2008	2009	2010	2011	2012
Interest expense	100,396	51,934	36,639	46,799	45,437
Non-deductible interest expense	3,012	1,536	1,465	1,573	1,580
Additional taxes on non-deductible interest expense	828	422	403	432	434
(non-deductible interest expense)/(tax base)	18.6%	9.2%	13.7%	14.6%	11.8%

Source: Based on tax return data (Ministry of Economy and Finance – Finance Department). Millions of euros.

ACE (Ires). – ACE provides tax relief to all corporations in the case of capitalization, providing a tax base abatement equal to the notional return of the net positive variation of equity as from the end of 2010.[20] Increases in returns on capital (hereinafter the 'potential ACE' deduction) can be deducted up to the amount of taxable income: when taxable income is smaller than the 'potential ACE' deduction, the 'effective ACE' deduction is smaller too; the excess (i.e. the difference between potential and effective ACE) can be carried forward indefinitely. Due to the incremental nature of the relief, the tax savings corresponding to the 'potential' ACE deduction increase over time (Table 3).

Table 3: ACE

	2011	2012
Tax savings – 'effective' deduction in the year	-71.4	-166.6
Tax savings – 'potential' deduction	-71.8	-189.4
'Effective' deduction in the year/Ires tax base	-2.4%	-4.5%
ACE 'potential' deduction/ Ires tax base	-2.4%	-5.2%
Reduction of statutory tax rate – 'effective' deduction in the year	-0.7%	-1.2%
Reduction of statutory tax rate – 'potential' deduction	-0.7%	-1.4%
Share of banks with 'effective' ACE deduction in the year	72.2%	81.0%
Share of banks with 'potential' ACE deduction	76.5%	84.8%

Source: Based on tax return data (Ministry of Economy and Finance – Finance Department). Millions of euros.

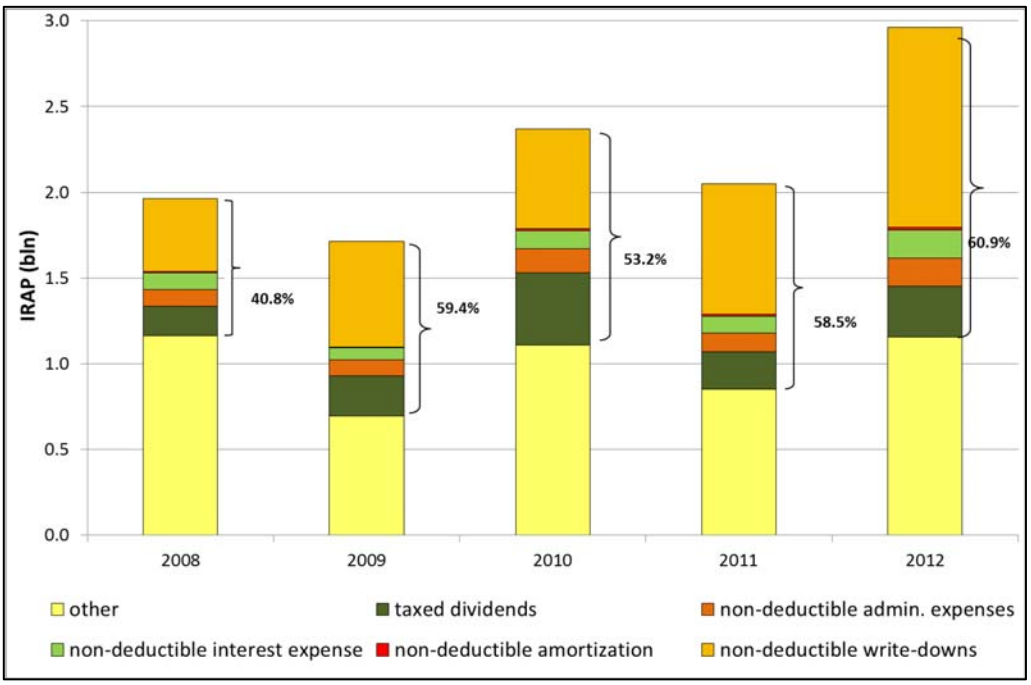
In terms of the tax base, the deduction passed from 2.4 per cent to 4.5 per cent based on the amount of ACE deductible in the year, that is, equal to a reduction in the statutory rate of 1.25 percentage points.

Due to capital increases and/or retained earnings, almost three out of four banks benefited from the deduction in 2011, and this share rises to a value close to 85 per cent in 2012.

[20] Besides tax relief, the ACE system could also incentivize capitalization processes through the reduction of the cost of equity, however this incentive is not part of the following analysis.

Administrative expenses, amortization, dividends, interest expense and write-downs (IRAP). – IRAP is a regional tax on the production of value added. Special rules apply to banks, whose tax base is equal to net interest and other banking income, less 50 per cent of the value of dividends and 90 per cent of both depreciation and amortization and general expenditures.[21] As in the case of Ires, only 96 per cent of interest expense is deductible. Write-downs were not deductible up to 2013.[22]

Figure 7: IRAP



Source: Based on tax return data (Ministry of Economy and Finance – Finance Department).

Overall, the taxes that would have been saved in the event of the full deductibility of these items grow from €800 million to €1.2 billion in 2010-11 and jump to €1.8 billion in 2012 (in relative terms from 40 per cent to 60 per cent of the IRAP due; Table 4). Figure 7 shows the share of tax attributable to each of the non-deductible items. The main role is played by write-downs (amounting to 22 per cent to 40 per cent of the overall IRAP tax and to 53 per cent to 65 per cent of the total taxes on non-deductible IRAP components) followed by dividends (9 per cent to 10 per cent with a peak of 17 per cent in 2010 on the IRAP tax, and 16 per cent to 22 per cent with a spike of 33 per cent in the same year on taxes due on these items). Interest expense and administrative expenses are of the same order of magnitude (4 per cent to 5 per cent on the IRAP tax, and 9 per cent to 12 per cent on taxes on these components).

[21] As with IRAP, Italian banks also face a higher tax rate than that applied to other non-financial firms. However, the effects of the higher tax rate are not evaluated in this work, as it aims to evaluate the differences between Italian banks and their foreign competitors and not between banks and non–financial entities.

[22] See also Annex 1. These provisions also represent a departure from the taxation of the value added – which is supposed to be the reference base for this tax – resulting in a disadvantage for banks as compared with other domestic non-financial firms. For the financial sector, the net value added from national accounts is given by the margin of intermediation (interest received minus interest paid) less amortization. Thus the non-deductibility of part of the amortization, as well as a share of interest expense and dividends, are not consistent with the economic definition of net value added. Administrative expenses are usually deducted as a cost from the IRAP base as well.

However, it should be noted that loan write-downs have been deductible on a straight-line basis (one fifth in each tax period) since 2013. This removes the economic cost of this component for IRAP purposes, yet generates a cost relating to the deferral of deductibility.

Table 4: Overall impact of IRAP provisions

	2008	2009	2010	2011	2012
Additional IRAP	803	1,020	1,261	1,197	1,804
Additional IRAP/total IRAP	39.7%	57.8%	51.8%	56.9%	59.2%

Source: Based on tax return data (Ministry of Economy and Finance – Finance Department). Millions of euros.

Effects on financial stability and profitability

It is possible to compute the overall lower taxes that would have been paid by Italian banks if the tax provisions reported in Section 3.1 had not been applied (Table 5). Had these taxes been not paid, the overall system-level net profits would have increased by €1.6 billion on average, with a peak of more than €2 billion in 2012.[23] In the period 2008-2012, the overall amount of additional profits recorded (corresponding to 'higher taxes' in Table 6) would have been €8.6 billion. As it can be seen, the main role is played by IRAP with respect to write-downs, which account for 30 per cent to 50 per cent of the overall amount in the period 2008-2011 and for nearly 60 per cent in 2012. Interest expense has a non-negligible impact, accounting for 20 per cent to 30 per cent of the total additional taxes.

A higher net income would have had a non-negligible effect both on the financial stability and on the profitability of the banking sector.

Table 5: Additional taxes/costs and effects on net profits

	2008	2009	2010	2011	2012
Ires – interest expense	828	422	403	432	434
Ires – ACE tax savings (potential)				- 72	-189
IRAP – dividends	173	234	423	219	297
IRAP – depreciation and amortization	8	8	11	10	14
IRAP – administrative expenses	98	95	139	112	163
IRAP – interest expense	97	67	105	98	163
IRAP – loan write-downs	426	616	582	758	1,167
Overall additional taxes	1,631	1,442	1,664	1,558	2049
IRAP – 10 per cent deductibility from Ires	-22	-28	-35	-33	-50
Ires – deferred loan write-downs opportunity cost	n.a.	33	31	186	205
Overall increase in net profits	1,609	1,447	1,660	1,711	2,204

Note: Based on tax return data (Ministry of Economy and Finance – Finance Department). Millions of euros.

The effects on financial stability. – As mentioned above, had Italian banks not been subject to these tax rules, the taxes saved would have positively impacted the CET1 or Tier 1 ratio.

[23] This figure is reduced by the deductibility of 10 per cent of IRAP from Ires as a lump-sum reimbursement of the tax paid on labour costs and interest expense.

Table 6: Effects on financial stability

Year	Self-financing rate	Loss-making bank asset ratio	Higher taxes	Lower losses reported by loss-making banks	Higher retained net profit reported by profit-making banks	Higher capital
	(*percentage points*)		(*millions of euros*)			
2008	64.2	13.0	1,609	209	899	1,108
2009	47.0	7.8	1,447	113	627	740
2010	48.2	5.9	1,660	97	753	850
2011	59.2	51.3	1,711	879	493	1,372
2012	52.2	36.3	2,204	800	733	1,533
Total			**8,631**	**2,098**	**3,504**	**5,602**

Source: Based on supervisory reporting data and tax return data (Ministry of Economy and Finance – Finance Department).

As the higher taxes have been paid by both profit-making and loss-making banks, we assume that they are distributed between this two groups according to the yearly share of total assets. Next, we assume that – if loss-making banks had not paid higher taxes – the amount saved would have reduced the losses and, thus, increased the common equity.

Since profit-making banks are not necessarily expected to retain the whole amount of the higher net profit, we assume that the share that could, in principle, accrue to CET1 or Tier 1 is equal to the self-financing rate, defined as the ratio of reserve provisions (or the retained net profit from previous years) to net profit in each year.[24] This self-financing rate shrank from 64.2 per cent to 52.2 per cent in the period 2008-2012 (Table 6). The sum of the lower losses of loss-making banks and the higher retained net profits of profit-making banks would have led to an increase in CET1 or Tier 1 regulatory capital up to €5.6 billion over the 5-year period. It is worth noting that the stress test, carried out during the comprehensive assessment in preparation for the launch of the Single Supervisory Mechanism (SSM) on 4 November 2014, showed that four Italian banks had potential capital needs of €3.3 billion (see Banca d'Italia, 2014).

In order to evaluate the effects of this additional regulatory capital on financial stability, we calculate the ratio of additional capital (€5.6 billion) to the consolidated risk-weighted assets in 2012, which is about €1.7 trillion. The increase in CET1 or total capital ratio that the banking sector would have recorded had the higher taxes not been paid is equal to 33 basis points (51 basis points, when the total amount of higher taxes paid, €8.6 billion, is considered); this represents a non-negligible amount relative to the average CET1 ratio of 10.6 per cent in December 2012 and the total capital ratio of 13.8 per cent.

The magnitude of these effects would not change even if Italy were to introduce a bank levy similar to those existing in France, Germany and the UK.[25] In this case the additional capital would amount to €5 billion and would increase the capital ratio by 29 basis points.

[24] Data are drawn from the individual supervisory reports for all banks in Italy. In the cases where this ratio is above one (around 20 occurrences per year), it is set to one.

[25] In order to estimate the revenue of an Italian bank levy in the period 2008-2012, first the total revenue of the French, German and British levies are taken into account (see Annex 1 for details); on average, these levies are equal to 0.012 per cent of total assets. Applying the same ratio to the total assets of the Italian banking sector and considering

The effects on profitability. Obviously the counterfactual tax savings would have affected not only the common equity (and therefore stability), but also profitability. Overall, the net effect on ROE[26] would be in the range of 0.52 to 0.80 percentage points, which appears not to be insignificant considering that ROE has been negative in recent years (-8.3 per cent and -0.9 per cent in 2011 and 2012, respectively; Table 7); the value for 2012 goes from a negative figure to close to zero. If a bank levy had been introduced, in 2011 and 2012 the net effect on ROE would have been, respectively, 0.46 per cent and 0.61 per cent.

The negative effect on ROE due to IRAP provisions increases significantly over the period, reaching 0.70 percentage points in 2012. The effect of Ires interest expense provisions amounts to about 0.32 percentage points in 2008, while it stands at around 0.14 percentage points to 0.18 percentage points in the remaining years.

The effect in terms of an increase in ROE as a result of ACE (i.e. the reduction in ROE, had this measure not been in place) is in the order of 0.03 percentage points to 0.08 percentage points.

Given that write-downs have been deductible from Irap since 2013, the effect on ROE due to the non-deductibility of this item, which was in force in the period considered, can be interpreted as the increase in ROE 'expected to be observed' since 2013.

Table 7: Impact on ROE

	2008	2009	2010	2011	2012
Actual ROE	4.65%	2.97%	3.24%	-8.38%	-0.87%
Ires	0.33%	0.17%	0.15%	0.22%	0.18%
interest expense	*0.33%*	*0.16%*	*0.14%*	*0.17%*	*0.17%*
deferred write-downs	*0.00%*	*0.01%*	*0.01%*	*0.07%*	*0.08%*
ACE	*0.00%*	*0.00%*	*0.00%*	*-0.03%*	*-0.08%*
IRAP	0.31%	0.37%	0.43%	0.46%	0.70%
dividends	*0.07%*	*0.09%*	*0.15%*	*0.09%*	*0.12%*
amortization	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.01%*
administrative expenses	*0.04%*	*0.04%*	*0.05%*	*0.04%*	*0.07%*
interest expense	*0.04%*	*0.02%*	*0.04%*	*0.04%*	*0.07%*
write-downs	*0.17%*	*0.23%*	*0.20%*	*0.30%*	*0.47%*
Overall impact on ROE	0.64%	0.54%	0.58%	0.68%	0.88%
Counterfactual ROE	5.29%	3.51%	3.81%	-7.70%	0.01%

Source: Based on tax return data (Ministry of Economy and Finance – Finance Department).
Note: the impact on ROE is calculated year by year; in other words, for each year the average equity is the actual figure and it is not increased by the higher net profits that would have been recorded in previous years due to tax savings.

3.2. An analysis of financial statement data

The tax burden on the Italian banking sector can also be assessed by analysing financial statement data. This Section follows a backward-looking approach and uses the supervisory reporting data regularly collected by the Bank of Italy. The assessment of DTAs (gross and net of deferred tax

that bank levies have been applied in these countries since 2011, the estimated revenue of an Italian bank levy is less than €1 billion.

[26] The effect is calculated year by year as the ratio between the higher profits and the average equity.

liabilities) is also included, with a focus on the amount of DTAs that can be transformed into tax credits.

The analysis refers to commercial banks ('*società per azioni*' and '*popolari*') and cooperative banks ('*banche di credito cooperativo*'; BCCs).[27]

The backward-looking tax ratios are computed with reference to the banking system as a whole, in line with the methodology described in Section 2.2 but including banks that run losses. We consider the tax ratio that accounts for taxes on an accrual basis, namely taxes accounted for in the income statement, equal to the sum of current and deferred taxes (see Table 8 and Annex 2).[28] Deferred taxes arise from temporary differences between the carrying amount of an asset or liability in the financial statement and its tax base; DTAs correspond to amounts that will be deductible in future periods, thus they reduce accrued taxes; deferred tax liabilities are equal to amounts that will be taxable in future years, therefore they increase the accrued taxes for the year.

Table 8: Accrual tax ratios

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Accrued taxes	7,979	8,668	1,435	3,442	3,266	-994	-2,495	-2,432	-542
Net profit/loss before tax	27,687	27,306	9,624	9,119	10,243	-24,819	-6,056	-25,145	-9,983
Accrual tax ratio	28.82%	31.75%	14.91%	37.75%	31.89%	4.01%	41.20%	9.67%	5.43%

Source: Based on individual data in Bank of Italy supervisory reports. Millions of euros.

Table 9: Statutory tax rates

Year	Ires	IRAP	Sub-Total	Ires surcharge	IRAP regional surcharges	Total
2006	33.00%	4.25%	37.25%	-	0.57%	37.82%
2007	33.00%	4.25%	37.25%	-	0.84%	38.09%
2008	27.50%	3.90%	31.29%	-	0.88%	32.15%
2009	27.50%	3.90%	31.29%	-	0.83%	32.10%
2010	27.50%	3.90%	31.29%	-	0.87%	32.14%
2011	27.50%	4.65%	32.02%	-	0.87%	32.86%
2012	27.50%	4.65%	32.02%	-	0.87%	32.87%
2013	27.50%	4.65%	32.02%	8.50%	0.82%	41.32%
2014	27.50%	4.65%	32.02%	-	0.82%	32.82%

The statutory rates (see Table 9) and the tax ratios provide two different pictures. Differences are obviously due to legislative changes to the tax base and to other operations that influence the denominator. For the purposes of a correct interpretation of the accrual tax ratio, some caveats are worth mentioning.

[27] Italian branches of foreign banks are excluded due to their accounting and tax peculiarities.

[28] Differently from the analysis carried out in Ricotti et al. (2010), this paper does not provide results for the cash tax burden because data for computing the cash tax burden are no longer available in Bank of Italy supervisory reporting data.

First, in the period under review, a number of significant operations affecting the net profit in the income statement with no tax implications were carried out (i.e. operations affecting only the denominator, such as the impairment of goodwill, which is not relevant for tax purposes).

Furthermore, the recognition of DTAs in the financial statements plays a significant role in explaining the trend of accrued taxes, as they lower the overall tax burden recorded in the income statement (possibly making it negative), despite the presence of positive current taxes. This leads to two points: i) the accrual tax ratio may not represent the effective tax burden because the numerator is the sum of taxes with a positive sign (e.g., Ires, IRAP, surcharge and substitute taxes) and taxes with a negative sign (e.g., DTAs stemming from the deferred deductibility of costs or from Ires tax losses); ii) in some years (especially 2011-14) DTAs arose from tax losses, therefore in those years, the resulting positive tax value of the accrual tax index stems from the ratio between negative elements.

An analysis of major factors influencing the accrual tax ratio follows.

- *The increase in accrued taxes in 2007 is mainly due to the decrease in DTAs following the reduction of the statutory rates of Ires and IRAP from 2008 onwards; the reassessment of deferred taxes was made in the 2007 financial statements and led to an overall increase in accrued taxes in that year.*
- *In 2008 accrued taxes decrease significantly, mainly because of the amounts of DTAs booked as a result of the option for goodwill realignment regimes. In 2008, indeed, some optional regimes were introduced to facilitate the alignment between tax values and accounting values, allowing a step-up in the tax base of fixed assets (both tangible and intangible, including goodwill), upon payment of a substitute tax.[29] Among these regimes, banks (especially larger ones) have made wide use of the option to align the tax base of the goodwill to its book value in the balance sheet: banks could deduct the realigned tax base on a straight-line basis over the subsequent 9 years against the payment of a substitute tax. This operation led to the recognition of significant amounts of DTAs[30] (related to future amortization), making the tax ratio smaller. Moreover, the decrease in accrued taxes was also driven by the lower statutory tax rates in force since 2008 that have decreased the amounts of current taxes. These factors more than counterbalanced the several measures adopted this year to broaden the tax base.[31]*
- *In 2009 and 2010 the accrued tax ratio returns to 'normal' values because of the lack of effect of the realignment regimes applied in 2008.*

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[29] These regimes generally result in an increase in taxes paid in the year of the alignment, caused by the payment of the substitute tax due on the realigned value, and in a reduction in the taxes due in subsequent years, because of the higher deductions allowed (depreciation and amortization) deriving from the increase in the tax value of the assets.

[30] The peculiarity of the realignment between the accounting and the tax value of goodwill derives from the accounting treatment under International Accounting Standards. According to IAS 12, deferred tax liabilities cannot be recorded against the inclusion of goodwill in the balance sheet. However, upon the payment of the substitute tax, the bank acquires the right to deduct the amortization of the tax value of the goodwill. In this way the bank acquires the right to pay lower taxes in the following years and the bank can record deferred tax assets against such a right.

[31] The substantial changes introduced in tax rules for companies using IAS/IFRS in their financial statements (including banks) resulted, *inter alia*, in the full taxation of dividends on shares booked as 'held for trading' (instead of the 95 per cent exemption) and in the full relevance of unrealized gains and losses resulting from the mark-to-market valuation of the same shares for Ires purpose (instead of full irrelevance). Moreover, as already indicated, interest expense is partially non-deductible from the Ires base (3 per cent non-deductible in 2008; 4 per cent from 2009); on the other hand, the share of the participation exemption was increased from 74 per cent to 95 per cent. For IRAP purposes, a number of negative components were made partially non-deductible: interest expense (3 per cent non-deductible in 2008; 4 per cent from 2009); depreciation, amortization and general administrative expenses (10 per cent non-deductible); dividends were made partially taxable (50 per cent). On the other hand, there was the introduction of the deductibility of 10 per cent of IRAP paid from the Ires tax base.

- *The denominator is negative starting in 2011 (Table 8); in some cases, the loss is due to impairment or devaluation of assets not deductible from the tax base. This makes the ratios meaningless.*
- *In 2011 some tax measures reduced accrued taxes (e.g. the introduction of the ACE system), but the increase in the IRAP rate acted in the opposite direction. Above all, 2011 was characterized by the introduction of a new regime for the realignment of goodwill and other intangible assets of controlled companies.*[32]
  As in previous cases, opting for this regime led to the recognition of large amounts of DTAs, which lowered accrued taxes. Together with the DTAs on tax losses, these DTAs made the numerator negative.
- *Overall, between 2008 and 2012, Italian banks paid around €9.9 billion in substitute taxes in order to apply regimes for the realignment of goodwill and other intangible assets (source: tax return data, Ministry of Economy and Finance – Finance Department).*
- *In 2012 certain tax measures reduced the tax base and thus the absolute value of the accrued taxes.*[33] *Unlike in 2011, the accounting losses were also attributable to deductible tax expenses, which brought the accounting loss nearer to the tax loss (therefore the DTA component of the numerator and the denominator were more in line with one another); moreover, the numerator was not affected by substitute taxes. These factors make the 2012 accrual tax ratio more significant than the one for 2011.*
- *In 2013 and 2014, as in 2011 and 2012, the value of the accrual tax ratio was low because the numerator was calculated as the sum of opposite sign elements (the DTAs, on the negative side, and the surcharge tax, the 12 per cent substitute tax and the IRAP, on the positive side).*
- *In particular, in 2013 accrued taxes did not change significantly compared to the year before. On the one hand, accrued taxes increased because of the Ires surcharge on the financial sector (8.5 per cent on top of the normal rate of 27.5 per cent) and because of a substitute tax of 12 per cent on the revaluation of Bank of Italy shares held by financial intermediaries; on the other hand, in 2013 the huge amounts of loan write-downs (also in the context of the ECB Asset Quality Review) led to the recognition of corresponding amounts of DTAs for Ires purposes and, for the first time, for IRAP purposes, which decreased the accrued taxes.*
- *Also in 2013 and 2014 accrued taxes were negative. On the one hand, they were positively affected by the increase in the ratio of substitute tax levied on the revaluation of Bank of Italy shares from 12 per cent to 26 per cent in April 2014; indeed, as regards financial statements, in 2013 only a 12 per cent tax was accounted for, while the remaining part (14 per cent) was accounted for in 2014. On the other hand, accrued taxes were lowered significantly through the recognition of large amounts of DTAs on loan write-downs that resulted, as in 2013, in huge income statement losses.*

The breakdown of the results by type and bank size confirms the offered interpretation of the accrual tax ratio (Annex 2). Indeed, smaller banks were less affected by accounting losses compared with larger banking groups, and the data for them allow us to make a more significant analysis. Moreover, the lower accrual tax burden on BCCs is derived from the partial exemption of their income from Ires (about 70 per cent of their profits). That the accrual taxes borne by BCCs in 2008 were higher than those of other banks was due to the fact that BCCs did not benefit from the

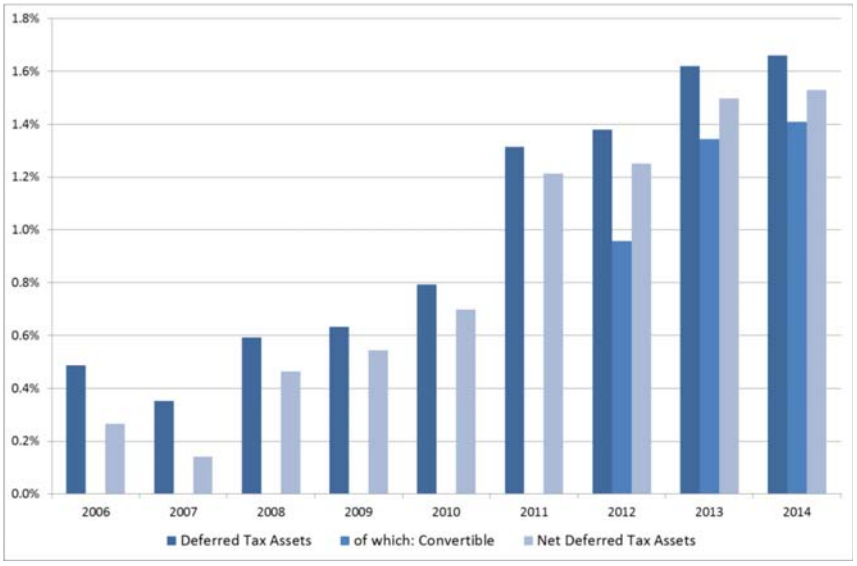
[32] This unique regime provided for a 'fictitious' realignment of the goodwill and other intangible assets of the subsidiary reported in group consolidated financial statements. The regime was introduced in order to recognize for tax purpose the value of goodwill on transactions involving the acquisition of controlling shares, given that existing realignment regimes only apply to mergers and direct acquisitions. The realignment allowed the deduction of the value of goodwill on a straight-line basis over 10 years upon payment of a substitute tax.

[33] E.g. the introduction of the full deductibility from the Ires tax base of IRAP imputable to non-deductible labour costs; moreover, the conditions for the deductibility of loan losses were simplified.

goodwill realignment regime – therefore they did not report high amounts of DTAs – as they are rarely involved in M&A operations that lead to the recognition of goodwill in the balance sheet.

Deferred tax assets. – As regards the Italian banking system, DTAs mainly arise from the tax treatment of the credits and from the goodwill realignment regime. At the end of 2014, DTAs stemming from the deferred deductibility of loan losses amounted to about 49 per cent of the total, DTAs from the goodwill realignment regime to 31 per cent and DTAs from the realignment regime for other intangible assets to 5 per cent. The remaining 15 per cent are attributable to DTAs generated by other tax rules: for example those stemming from 'tax losses' (which can be offset by taxable income in subsequent years) represented 1 per cent of total DTAs.

Figure 8: Deferred tax assets and liabilities as a share of total assets for the entire banking sector(*)



Source: Based on financial statement data. Percentages.

(*) Net DTAs are DTAs net of deferred tax liabilities. Convertible DTAs are DTAs that, under certain conditions, can be converted into tax credits; data on convertible DTAs are available only from 2012 onwards, although the law on DTA convertibility was enacted in 2011.[34]

The share of DTAs out of total assets has been growing since 2006 with the most significant increases occurring in 2008, 2011 and 2013 (Figure 8 and Tables A.2.9, A.2.10, A.2.12, A.2.13 and A.2.14 in Annex 2). Most of the factors explaining the DTA trend were already mentioned in the previous Section.

These factors can be summarized as follows.

- *The decrease of the incidence of DTAs in 2007 is due to the reduction of the statutory Ires rate from 33 per cent to 27.5 per cent, which came into force in 2008, reducing the carrying amount of DTAs by approximately 17 per cent at the end of 2007.*
- *The increases recorded in 2008 and in 2009 are mainly explained by the effects of the goodwill realignment regime, introduced in 2008, which most banks opted to apply ; loan write-downs attributable to the beginning of the financial crisis are likely to have contributed to the increase in DTAs.*

[34] This distinction applies only from 2012, since in that year it became mandatory to indicate them separately for supervisory reporting purposes.

- *The significant increase in DTAs in 2011 is mostly attributable to the extraordinary amounts of loan write-downs owing to the financial crisis. The new goodwill realignment regime introduced in 2011 also played a role.*
- *Mainly because of the loan write-downs recorded, the level of DTAs remains high in 2012 with further increases in 2013 and 2014, despite the fact that the law on the convertibility of DTAs into tax credits led to a reduction in the stock of DTAs in those years. Moreover, starting from 2013, the amount also includes the new DTAs arising from the change to the IRAP law that allowed loan write-downs and loan losses to be deducted over 5 years, aligning IRAP and Ires treatment.*
- *Available data from 2012 onwards show that the amount of the DTAs convertible into tax credits is huge: respectively, they represent around 70 per cent, 83 per cent and 84 per cent of total DTAs in years 2012, 2013 and 2014. Starting from 2015 the stock of convertible DTAs will gradually decrease as a result of changes in the deductibility of loan losses and in the law on the convertibility of DTAs on goodwill made by Decree Law 83/2015; however, due to the full deductibility of loan losses, new amounts of DTAs on tax losses (not convertible) could arise.*

4. Conclusions

In the period 2006-2014 the effective tax burden on Italian banks remains higher than that reported for the other four major European countries. In Italy the incidence of taxes on gross profits amounted on average to more than 40 per cent while in other countries it ranges from 28 per cent (UK) to 35 (France) per cent. Moreover, as a result of different tax rules, the weight of DTAs is very uneven: it is far larger in Italy and Spain, as they do not permit the immediate deductibility of loan write-downs and losses. This required the introduction of provisions targeted at avoiding the deduction of certain DTAs from core capital thereby preventing a regulatory, in addition to a tax, drawback.

A comparison of national tax legislations in the period shows that Italian banks had other disadvantages, namely the partial deductibility of interest expense. On the other hand, the Italian banking sector is the only one that benefited from the allowance for corporate equity (ACE). In addition, Italian and Spanish intermediaries were the only ones not subject to bank levies.

With regard to the Italian banking sector, the analysis of tax returns (Ires and IRAP) for the years 2008-2012 allowed us to assess the impact on capital and profitability ratios of tax rules affecting Italian banks only. The additional taxes incurred in the period amounted to €8.6 billion; of these, about 40 per cent are attributable to the non-deductibility of loan write-downs and losses from the IRAP tax base, which has been repealed in 2013.

If these additional taxes had not been paid by Italian banks over the 2008-2012 period, taking into account the share of the higher profits that would not have been allocated to reserves, at the end of 2012 the Italian banking sector would have accrued about €5.6 billion in additional equity, corresponding to an increase in the capital ratios of 33 basis points (at the end of 2012 the CET1 ratio stood at 10.6 per cent and the total capital ratio at 13.8 per cent). Imposing on Italian banks a bank levy similar to that applied in other countries (France, Germany and the UK) would have only marginally reduced this effect; the additional assets would have amounted to about €5 billion, corresponding to an increase in the capital ratios of approximately 30 basis points. In terms of profitability, paying lower taxes would have increased ROE on average by 0.63 per cent per annum (0.55 per cent if there had been a bank levy), compared to an average return of almost nil (0.3 per

cent yearly). As from 2013, this effect has been reduced due to the possibility of deducting loan write-downs and losses from IRAP tax base.

The results of the analysis can be read in the light of the launch of the Single Supervisory Mechanism (SSM), which aims to ensure that banks throughout the euro area are supervised according to a consistent set of standards. However, the comparative analysis points to a wide heterogeneity across countries in the tax treatment of the banking sector; even though the same prudential regulations are applied to all SSM members, different tax systems may produce, other things being equal, very heterogeneous results in terms of opportunities to strengthen bank capital. This suggests that it would be advantageous to explore possible ways to make the tax systems of the countries participating in the SSM more homogeneous. A first step towards this could be to harmonize tax bases.

Annex 1

Bank taxation in Italy and other major European countries: a comparison[35]

This Annex reviews the main differences in bank taxation between Italy and France, Germany, Spain and the UK in force through the end of August 2015. Different tax treatment may derive from statutory tax rates and/or rules concerning the tax base. On this latter point, this work focuses on tax provisions only; differences stemming from divergences in the reference accounting standards that may affect the accounting results, and therefore the corporate tax base, are not considered.

Local taxes and bank levies introduced on the wake of the financial crisis are considered as well.

A.1. Tax rates

Italy. – The corporate income tax (Ires) rate is 27.5 per cent since 2008. In 2013 only, a surcharge of 8.5 per cent was applied to banks and insurance companies only.[36]

Since 2011 the IRAP rate for the banking sector is around 5.5 per cent (see Table 9).

France. – The standard rate is 33.33 per cent. Since 2013 the overall corporate tax rate stands at 38 per cent owing to a 10.7 per cent surcharge on the tax due by companies with turnover of more than €250 million and to a social surcharge of 3.3 per cent levied on the portion of the corporate tax due in excess of €763,000 (33.33 per cent x 1.107 + 33.33 per cent x 3.3 per cent). In 2011 and 2012 the surcharge was equal to 5 per cent of the tax due; the overall tax rate, including the 3.3 per cent social surcharge, was 36.1 per cent (33.33 per cent x 1.05 + 33.33 per cent x 3.3 per cent).

Germany. – Since 2008 the corporate tax rate (including the solidarity surcharge and the local *Gewerbesteuer*) amounts to 29.825 per cent (corporate tax rate of 15 per cent, solidarity surcharge rate of 5.5 per cent of the corporate tax due, local tax rate of 14 per cent), lower than the earlier level, which was close to 40 per cent (39.6 per cent in 2003, 38.3 per cent in 2004 and 38.7 per cent in 2005-07).

Spain. – The corporate tax rate stands at 30 per cent since 2008. Even if the tax rate is reduced to 28 per cent in 2015 and 25 per cent as from 2016 under the 2015 Budget Law, this provision will not apply to financial entities, which will continue to be taxed at the 30 per cent rate. A surcharge ranging from 0.01 per cent to 0.75 per cent may apply depending on how the entity is registered with the chamber of commerce, and a local business tax (tax on economic activities) is levied if its annual turnover exceeds €1 million, with the amount of tax due based on the activities carried out by the taxpayer and the size of its business premises.

UK. – For the tax year 2014 the rate is equal to 21 per cent for companies with revenues higher than £1.5 million (20 per cent for companies with profits up to £300,000 and a form of 'marginal relief' for companies with profits between £300,000 and £1.5 million). Under Budget 2015 for the financial year beginning on 1 April 2015, the rate is 20 per cent for all companies. The Summer

[35] This Section mainly refers to the IBFD database.

[36] The additional rate, however, applies to a smaller base than that subject to the ordinary Ires rate because it does not account for the temporary non-deductibility of a portion of loan write-downs and losses recognized in the year. As from 2017, the CIT rate will be equal to 24 per cent plus a surcharge of 3.5 per cent.

Budget 2015 announced the introduction of a new 8 per cent tax on the banking sector starting in January 2016.

A.2. Tax base

Loan losses and write-downs. – Concerning the tax treatment of loan losses and write-downs, most of the countries analysed allow a straightforward deduction of this item in the tax period they are recognized. Italy and Spain stand out for their stricter conditions regarding the deductible amount or the timing of the deduction.

In **Italy** a June 2015 decree law introduced the full and immediate deductibility of loan losses and write-downs for Ires and IRAP purposes starting in 2016. In the past, separate rules applied to Ires and IRAP and both have been modified several times. At the same time, the timing for the deduction of the stock of loan losses and write-downs not yet deducted at the end of 2015 was revised and will cover the 10-year period beginning in 2016.

Loan losses with respect to Ires. – Up to 2012 loan losses were deductible when there was certain, specific evidence of the insolvency of the debtor or, more generally, when the debtor was subject to collective insolvency proceedings (legal presumption of certainty of the loss).

In 2012 the legal presumption of certainty of the loss was extended to the following cases: restructuring agreements regulated by the law (Article 182-bis of Royal Decree 267/1942); debts for small amounts (less then €5,000 for large companies) overdue by at least six months; derecognition of the loan from the balance sheet according to IAS 39.

Over the period 2013-14 the law provided for: *i)* the immediate deduction of loss in the case of the sale of a credit; and *ii)* the deduction on a straight-line base over a period of five years in the case of losses not generated by sale (write-offs).

Starting from 2016 all kind of loan losses are immediately deductible (there will be a transition regime for 2015).

Loan losses with respect to IRAP. – From 2008 to 2012 loan losses resulting from the sale of a credit were immediately deductible and write-offs were not deductible (previously both items were deductible).

In 2013 IRAP provisions were aligned with Ires provisions, with the introduction of the immediate deduction of the loss in the case of the sale of a credit and the deduction on a straight-line basis over a period of five years in the case of write-offs.

Loan write-downs with respect to Ires. – From 2008 to 2012 loan write-downs relating to loans and receivables to customers – not covered by credit insurance – could be deducted for up to 0.3 per cent of the overall book value of the loans and receivables, not taking into account recorded write-downs or revaluations. The amount of provisions exceeding the above-mentioned limit could be deducted, on a straight-line basis, over the next 18 years (previously the limit was 0.5 per cent to 0.6 per cent, in 2004 only, of the book value with the excess amount being deducted over nine years).[37]

[37] Despite the deferred deduction of the excess provisions, the tax value of the loan is instantly decreased. This means that the tax value of the loan is always aligned with its book value. A subsequent sale or write-off of the loan does

For the years 2013-14 write-downs relating to all loans to and receivables from customers are deducted on a straight-line basis over five years.

Since 2016 loan write-downs are immediately deductible (transitional provisions applicable for 2015).

Loan write-down with respect to IRAP. – Up to 2012 loan-loss provisions were not deductible. For the years 2013-14 write-downs related to all loans to and receivables from customers are deducted on a straight-line basis over five years (in line with Ires).

As for Ires, as from 2015 loan write-downs will be immediately deductible (transitional provisions applicable for 2015 only).

In **France**, until 2012 the tax law contained a general rule allowing an entity to deduct a loss or a provision only if certain and specific requirements are met. Deductible provisions must be recognized analytically, although the case law also allows statistical methods to be used if appropriate based on the business. In addition, a specific rule for middle and long-term bank loans allows an annual deduction of an amount not exceeding 0.5 per cent of the loan's value, up to a maximum of 5 per cent of that value. The entity had the option of applying this rule instead of the general rule concerning provisions. In 2013 the specific rule for bank loans was repealed by the Budget Law for 2014; as a result, the general rule is now the only applicable one, permitting the loss or provision to be deducted in certain, specific circumstances.

In **Germany** losses and write-down are fully deductible. In particular, entities may deduct specific write-downs required by accounting rules that are mandatory for credits in the short to medium term and are only optional for the long term (when not considered permanent); lump-sum write-downs aimed at establishing hidden reserves or taken against latent risks are also allowed, with some quantitative limits. General provisions may be recorded based on the historical evidence. As a general rule, a provision of up to 1 per cent or 2 per cent of the amount of the credits is always eligible for a tax deduction.

In **Spain** banks' analytical provisions and loan losses are deductible up to the amount indicated by the national central bank; deduction of the provision is not allowed in certain cases (guaranteed loans, loans granted to public entities, etc.). General provisions, if allowed by the central bank, are deductible up to a maximum of 1 per cent of the incremental loans for the year.

In the **UK** losses and write-downs are fully deductible. In particular, with reference to loans, expected income and losses that arise from recognition are also relevant for tax purposes, provided that generally accepted accounting principles (either UK or IAS/IFRS) have been adopted. There are nevertheless some exceptions, including deduction not being allowed in case of (1) generic depreciation and (2) write-downs and losses related to intercompany credits, so as to counteract tax avoidance.

Dividends. – Most of the countries analysed provide for some form of participation exemption on dividends, though to varying extents and/or with different requirements concerning the origin, the holding period and the representation of capital or voting rights.

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not interrupt the deduction of the excess provisions on a straight-line basis over 18 years. As a result, corresponding DTAs are not reduced.

In **Italy** 95 per cent of domestic dividends are not included in the corporate income tax base and the remaining 5 per cent are taxable on a cash basis. For foreign-sourced dividends, the 95 per cent exemption is subject to the condition that the dividends have not been deducted in the country of origin and that they do not derive from a company resident in a low-tax jurisdiction included in the CFC black list. Since 2008 a special rule has applied to IAS/IFRS adopters (as banks are): dividends received on shares booked as 'held for trading' are fully taxable (unrealized gains and losses resulting from the mark-to-market valuation of the shares are also relevant for Ires purposes, but not under the general rules).

With respect to IRAP, dividends received by banks are taxable for 50 per cent of their amount, while dividends received by other taxpayers are fully exempt.

In **France** domestic dividends are exempt for 95 per cent of their amount if the shareholding meets certain criteria: it has been held for at least two years; it represents at least 5 per cent of the subsidiary's voting share capital or its price exceeds €22,800 or it qualifies as a participation shareholding for accounting purposes. If these conditions are not met, the dividends are fully taxable. Foreign-sourced dividends are taxed under the same conditions as domestic dividends, but if they are paid by a company resident in a non-cooperative state, they are fully taxable.

In **Germany** dividends received from domestic banks and financial intermediaries are fully taxed (this rule counterbalances the deductibility of capital losses allowed for banks). The exemption is applied to foreign dividends in the case of qualified investments under the parent-subsidiary directive.

In **Spain** domestic dividends are 100 per cent exempt if the share represents at least 5 per cent of the subsidiary's capital and it has been held for at least one year, otherwise dividends are taxable for 50 per cent (by means of a tax credit corresponding to 50 per cent of the corporate income tax attributable to the gross dividend). Starting from 2015 the minimum share capital percentage requirement is also met if the acquisition price of the participation exceeds €20 million. Until 2015 foreign-sourced dividends could benefit from the 100 per cent exemption if, in addition to the minimum share capital percentage and the holding period requirement, at least 85 per cent of the profits of the non-resident company arise from the performance of business activities in a foreign country other than a tax heaven; otherwise taxpayers could elect to apply for a tax credit to avoid double taxation. At the request of the European Commission, the treatment of foreign-sourced dividends has been aligned with that for domestic dividends.[38]

In the **UK** since 1 July 2009, dividends paid by medium/large companies are fully exempt regardless of the state of residence of the subsidiary company (those who receive dividends may, however, opt to be taxed).

Interest expense. – In all countries other than Italy interest expense is fully deductible by banks.

In **Italy**, since 2008, banks and insurance companies can deduct up to 96 per cent of interest expense (97 per cent in 2008 only) for both Ires and IRAP purposes.

[38] Spain was requested by the European Commission to amend its tax rules in June 2013 as the tax treatment applied to foreign-sourced dividends was judged more burdensome than the rules governing domestic-sourced dividends. As there had been no changes to the legislation, in November 2014 the European Commission referred Spain to the Court of Justice of the European Union (Case No. 2010/4111).

Additional Tier 1 (AT1) and Tier 2 instruments (AT2) . – With particular regard to financial instruments that qualify as regulatory capital (AT1 and AT2 instruments), only Italy and the UK have adopted special rules establishing the irrelevance for tax purpose of gains or losses arising from their evaluation in order to avoid tax effect on the capacity of these instruments to absorb losses. In France the absence of tax effects is ascertained by the Supervisory Authority. Italy, Germany and Spain have also established that the remuneration due on these instruments is deductible.

In **Italy** there are two special rules that apply to financial instruments that qualify as regulatory capital: (1) since 2011, remuneration paid by banks on those instruments is deductible as interest expense (up to 95 per cent of the amount), irrespective of the ordinary qualification rules of financial instruments as equity or debt for tax purposes; (2) since 2014, any gain or loss arising in respect of the instrument's contractual conditions (i.e. write-down or conversion in equity of the instrument following a loss absorption event) is not relevant for Ires and IRAP purposes. This excludes any tax impact that could reduce the amount of the instrument that would qualify as regulatory capital.

Since 2014 in the **UK** a specific regulation has been in effect providing that any profit or loss shall not be taken into account for the purposes of corporate taxation so long as the write-down, the write-up or the conversion is in accordance with regulatory requirements or provisions governing the security.

Since 2011 **Spain** has applied a special tax regime for preferred shares and debt instruments issued by Spanish credit entities (including listed companies and Spanish regulated securitization funds) under which the remuneration due on those instruments, subject to the fulfilment of the same requirements, is deductible for tax purposes.

In **Germany** a circular letter issued by the Federal Ministry of Finance clarified that the remuneration paid by the banks on AT1 instruments is tax deductible as other interest expense. Instead, profits or losses arising from the write-down, the write-up or the conversion of AT1 instruments are fully relevant for tax purposes (regarding the conversion, this shall only be tax neutral for the issuer to the extent that the AT1 instrument is not distressed).

Allowance for corporate equity (ACE). – The ACE reduces the tax bias between debt (interest expense deductible) and equity (dividends not deductible) by allowing the deduction of a notional return on the latter. Among the countries analysed, only **Italy** has had this system since 2011; Spain introduced a sort of the ACE system on retained earnings in 2015.

The **Italian** ACE, introduced in 2011, provides for the deductibility from the Ires base of a notional return of the net positive variation in equity (with respect to its 2010 level). The notional return rate was 3 per cent from 2011 to 2013; 4 per cent in 2014, 4.5 per cent in 2015 and 4.75 per cent in 2016; starting from 2017, the Ministry of Finance will determine the applicable ACE rate by 31 January of each year, taking into account the average yield on government bonds. The notional return can be deducted up to the amount of taxable income; the amount of the notional deduction in excess of net taxable income can be carried forward to relieve future taxable income with no time limitation or, since 2014, can be used as a tax credit against IRAP.

As for banks, the ACE system could have both direct and indirect positive effects: on the one hand, it decreases the cost of capital and, on the other hand, it strengthens the equity of the clients of the banks, thereby lowering credit risks.

In 2015 **Spain** introduced a 10 per cent deduction for retained earnings (with the limit of 10 per cent of the taxable base) provided such earnings are allocated to a special reserve and are not distributed for at least 5 years. The excess may be carried forward for the following two years, subject to the applicable limit for each year.

Tax losses. – Tax losses are currently carried forward with no time limits in all countries under review. In Spain an 18-year limit applied up to 2014 and a 5-years limit until 2011 in Italy. France, Germany and UK also allow the carry-back of tax losses.

In **Italy** before 2011 losses could be carried forward only up to 5 years, with no limits on off-setting. Since 2011 losses can be carried forward indefinitely but can be offset only up to 80 per cent of the taxable income of any year. Tax losses cannot be carried back.

In **France** tax losses can be carried forward with no time limit. Since 2011, prior losses can be offset only up to €1 million plus 60 per cent of the portion of the profit exceeding €1 million. Since 2013 the 60 per cent portion of profit has been reduced to 50 per cent.

In addition, tax losses can be carried back against the profits of previous years: for financial years ending before 21 September 2011, losses can be carried back to the preceding three financial years; for subsequent years tax losses can be carried back against profits realized in the preceding financial year up to a maximum amount of €1 million. Any unused surplus will be carried forward.

In **Germany** tax losses may be carried forward indefinitely up to the limit of €1 million; any remaining loss can only be set off against an amount equal to 60 per cent of the net income exceeding this limit. Tax losses can be carried back for one year, limited to a total loss amount of €1 million (€511,500 before 1 January 2013).

In **Spain**, starting from 2015, tax losses can be carried forward indefinitely; an 18-year limit applied up to 2014 (15 years prior to 2011). No carry-back is allowed. In 2011 limitations on the offsetting of unused losses were introduced: 50 per cent (75 per cent only for 2011) of the taxable base if the company's turnover is between €20 million and €60 million and 25 per cent (50 per cent only for 2011) in case the turnover exceeds €60 million; from 2016 tax losses up to the amount of €1 million can offset taxable income with no limitation; any remaining loss can only be set off against an amount equal to 70 per cent of the net income exceeding this limit.

In the **UK** tax losses may be offset against the total taxable profits of the previous accounting period or periods that fall within the 12 months ending immediately before the loss-making period (12-month carry-back). The loss may also be carried forward without time limit against future income on the same trade (unlimited carry-forward). Since 2015 banks can offset losses carried forward for up to only 50 per cent of profits.

A.3. Tax treatment of DTAs

Endorsing the framework of Basel 3, Regulation (EU) no. 575/13 (CRR) requires the deduction from Common Equity Tier 1 (CET1) of DTAs relying on future profitability. In order to avoid the

deduction of a significant amount of DTAs arising from specific tax rules, Italy and Spain adopted legislation that permits – under certain conditions – the conversion of DTAs into tax credits. France, Germany and the UK have not adopted similar regulations since, in those countries, the amount of DTAs recorded in bank financial statements is much smaller (see Section 2).

In **Italy** a specific provision was introduced in 2011 to ensure the non-deductibility from CET1 of DTAs arising from temporary differences pertaining to the deductibility of loan losses and of goodwill and other intangible assets value for Ires and IRAP purposes. The rule allows the conversion of such DTAs into tax credits in the event of an income statement or tax loss or in the case of the liquidation or insolvency of the bank. The tax credit can be offset against any tax liability or, in case the former exceeds the latter, the excess amount can be claimed back from the State. A June 2015 law provided that the conversion into tax credits will apply only to DTAs relating to goodwill and other intangible assets recognized up to 2014 and to DTAs arising from loan losses booked up to 2015.

In **Spain** a specific rule was introduced in 2013 to ensure the non-deductibility from CET1 of DTAs relating to loan losses and to contributions to social security systems as well as to early retirement schemes. The rule provides for the conversion of such DTAs into a tax credit in the event the bank reports a loss or in the event of the liquidation or insolvency of the bank. The tax credit can be refunded by the tax authorities or offset against any tax liability that the entity generates from the moment of the conversion. Moreover, the above-mentioned DTAs may be exchanged for public debt securities when the conversion cannot take place (because the entity does not incur financial losses, liquidation or judicial insolvency) within 18 years of the registration of the DTAs in the accounting records.

A.4. Other taxes

All countries except for the **UK** levy local and other taxes on companies and banks.

Italy has a regional tax (IRAP) that applies to all productive activities and its base is represented by the value added, i.e. the difference between the production value and the sum of operating costs, depreciation and amortization. The law identifies analytically the income statement items that comprise the tax base, distinguishing between commercial companies, banks and insurance companies. Up to 2014 the cost of labour was generally not deductible, with only a small portion deductible (only certain items used to be deductible, e.g. social security contributions and some lump-sum deductions for employment expenses); since 2015 all labour costs relating to open-ended contracts are deductible, bringing the IRAP base closer to the Ires base. For IRAP purpose, carrying forward or carrying back tax losses is not allowed. Moreover IRAP is not deductible from Ires except for a small share relating to employment costs (calculated analytically) and to interest expense, calculated approximately at a flat rate equal to one tenth of the tax.

The tax base for banks is equal to the net interest and other banking income reduced by 50 per cent of the value of dividends, 90 per cent of depreciation, amortization and general expenditures and, starting from 2013, loan losses (the latter are deductible on a straight-line base over a period of five years up to 2014 and fully deductible starting from 2015).

France has a local tax, named *contribution économique territoriale*, levied on businesses and professionals which, since 2010, replaces the previous *taxe professionnelle*. It is composed of two taxes: the *cotisation fonciere des entreprises* (CFE) and the *cotisation sur la valeur ajoutée des entreprises* (CVAE). The CFE is due on the value of real estate used for business purposes, generally determined on the basis of the cadastral value. The rates are determined by the local authorities (municipalities or groups of municipalities); in Paris in 2013 the rate amounted to 16.52 per cent. The CVAE applies to the value added of businesses and professionals with a turnover of at least €500,000. Unlike IRAP, depreciation and personnel costs are wholly not deductible. For banks, the tax base is equal to the net interest and other banking income reduced by 95 per cent of the value of dividends and loan losses. The rate varies from 0 per cent for a turnover less than €500,000 to 1.5 per cent for turnover exceeding €50 million. The sum of CFE and CVAE cannot exceed 3 per cent of the value added. Both taxes are deductible from the corporate income tax.

Banks and other VAT exempt companies are also subject to the *taxe sur les salaires*. It is levied on the gross amount of remuneration paid to each employee, with the following progressive rates: 4.25 per cent up to €7,705; 8.5 per cent from €7,705 to €15,385; 13.6 per cent from €15,385 to €151,965; 20 per cent on any higher amount. The tax determined as above is then multiplied by the ratio between the turnover not subject to VAT and total turnover. If the ratio is lower than 10 per cent, the tax is not due. This tax is deductible from the corporate income tax.

Germany has a local business tax (*Gewerbesteuer*) with a base very close to the corporate tax base. Rates are fixed by municipalities and are equal on average to 14 per cent (national rate of 3.5 per cent for an average municipal multiplier of 4). Since 1 January 2008, this tax is no longer deductible from its own base and from the corporate income tax.

Spain has an *Impuesto sobre Actividades Económicas* which applies only to companies with a turnover of more than €1 million. The amount of the tax depends on the activities carried out and the surface area of the business premises, corrected by certain coefficients and increased by a provincial surcharge. The local tax is deductible from the corporate tax.

A.5. Indirect taxes and taxation of financial products

VAT group. – The VAT Directive allows each member state to introduce a special VAT group treatment, which considers taxpayers that are resident in the same territory and closely tied by economic, financial and organizational relationships to be a single entity for VAT purposes (Council Directive 2006/112/EC, Article 11).

VAT group treatment is used in **Germany**, **Spain** and the **United Kingdom**. **Italy** and **France** do not provide for it, therefore banking groups in these two countries face higher costs on intra-group transactions involving non-deductible VAT.

Taxation of government bonds. – Under **Italian** individual taxation rules, income deriving from government bonds (or similar instruments, such as, for example, postal bonds) is treated differently than income from other financial instruments: the tax rate for the former is 12.5 per cent, while it is 26 per cent for the latter.

In the **United Kingdom,** interest on certain National Savings certificates is tax exempt.

The laws in **Germany**, **France** and **Spain** do not provide for different tax treatment for government bonds.

A.6. Bank levies[39]

In the wake of the financial crisis, bank levies have been adopted in a number of countries and are still under consideration in others. As for the countries we have analysed, France, Germany and United Kingdom introduced a bank levy in 2011; Italy and Spain have not introduced any bank levies. However, starting from 2016 every member state (Italy and Spain included) has to introduce a sort of bank levy to finance the Single Resolution Mechanism (SRM): the UK finances the SRM with its existing bank levy; Germany replaced its bank levy with the European contribution; France introduced the European contribution but it will abolish the existing bank levy only in 2019.

Bank levies are usually charged on certain types of bank equity or liability and are based on the level of risk. The features of the levies vary significantly from country to country. Bank levies do not fall within the scope of tax treaties, therefore, they can result in double taxation. This problem has been addressed so far by France, Germany and the United Kingdom.

In **France** the *taxe de risque systémique des banques* was introduced in 2011, generating revenue of about €500 million.[40] The tax is levied on banks and financial institutions that are subject to prudential regulations. The tax base is represented by the minimum capital requirements prescribed by the prudential rules; in the case of banking groups, the minimum capital requirements are determined on a consolidated basis. The tax does not apply if the minimum capital requirements of the previous year are lower than €500 million. The aim of the tax is to discourage risk-taking. Indeed, the minimum capital requirements are directly linked to the level of risk, so the volume of the tax base (and the level of the tax burden) increases proportionally to the risk taken by the company in the course of its business. The tax rate was 0.25 per cent for 2011 and 2012, increasing to 0.50 per cent for 2013 and to 0.539 per cent from 2014; in 2015 it is 0.329 per cent. The tax was deductible for corporate income tax purposes until 2014. Any double taxation that may arise from the imposition of a similar tax in another state is unilaterally relieved via a tax credit.

In **Germany** a bank levy was introduced in 2011 for credit institutions having permission under the German Banking Act (*Kreditwesengesetz*) to carry out regulated banking activities that are subject to the Credit Institution Accounting Regulation. The levy finances the Restructuring Fund (*Restrukturierungsfonds*), which has a target size of €70 billion, earmarked to rescue banks in distress if their failure would endanger the systemic stability of the banking system. The bank levy is calculated and collected per single entity and not on a group basis. The annual revenue stood at about €520 million in 2013.[41]

The tax base is twofold: (1) the sum of the relevant liabilities as shown in the balance sheet of the previous financial year less customer deposits and equity capital (CET1 and CET2) and (2) the sum of the off-balance-sheet derivatives. Tax rates vary depending on the tax base: (i) the tax rate is progressive on the relevant liabilities, (0.02 per cent from €0.3 billion to €10 billion, 0.03 per cent

[39] This Section also relies on Devereux et al. (2013).
[40] Conseil des prelevements obligatoires (2012).
[41] Buch et al. (2014).

from €10 billion to €100 billion, 0.04 per cent from €100 billion to €200 billion; 0.05 per cent from €200 billion to €300 billion; 0.06 per cent above €300 billion); (ii) on derivatives, 0.0003 per cent of the nominal value. The maximum levy to be paid is limited to 20 per cent of the bank's annual profits but a minimum levy of 5 per cent of the regular annual contribution is due even if the credit institute reports a loss. The bank levy is not deductible from corporate income tax. In addition to the above-mentioned bank levy, the bank may be asked for other special contributions if the annual contributions are not sufficient, with such special contributions distributed among the banks in proportion to their three-year annual contribution averages. Resources obtained by this process but not utilized must be refunded.

A bank levy was introduced in the **UK** in 2011. The tax is levied on UK banks, banking groups and building societies, foreign banking groups operating in the UK through permanent establishments or subsidiaries, and UK banks and banking sub-groups in non-banking groups. The tax base is the sum of the liabilities determined on the basis of the consolidated financial statements (for UK groups), or of the sub-consolidated financial statements (for foreign groups) or of the individual financial statements (for single banks), less CET1, insured retail deposits, repos secured on sovereign debts and liabilities arising from insurance contracts to customers. Derivatives are included at their net liability value. Banking institutions and groups are liable to pay the levy only where their relevant aggregate liabilities exceed £20 billion. From 2014, the bank levy rates are: 0.156 per cent for short-term chargeable liabilities and 0.078 per cent for chargeable equity and long-term chargeable liabilities (more than one year residual maturity); on 1 April 2015 the rate increased from 0.156 per cent to 0.21 per cent. The tax rate had been previously increased in 2013 from 0.0525 per cent to 0.065 per cent for long-term chargeable liabilities and from 0.105 per cent to 0.130 per cent for short-term chargeable liabilities. Revenue was around €2.5 billion in 2013-14.[42] The Summer Budget 2015 provides for a phased reduction in the bank levy rate from 0.21 per cent to 0.1 per cent between 2016 and 2021; in addition, the foreign subsidiaries of UK banks will not have to pay the bank levy from January 2021.

The levy is not deductible from the corporate income tax.

[42] Maffini (2015).

Annex 2

Statutory and effective tax rates

Table A.2.1: Statutory tax rates, 2000-2015

Country	2000	2001	2002	2003	2004	2005	2006	2007
France	37.80%	36.40%	35.40%	35.40%	35.40%	34.00%	34.40%	34.40%
Germany	51.60%	38.30%	38.30%	39.60%	38.30%	38.70%	38.70%	38.70%
Italy	42.40%	41.00%	41.19%	38.71%	37.71%	37.72%	37.82%	38.09%
Spain	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	32.50%
United Kingdom	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%

Country	2008	2009	2010	2011	2012	2013	2014	2015
France	34.40%	34.40%	34.40%	34.40%	36.10%	38.00%	38.00%	38.00%
Germany	29.83%	29.83%	29.83%	29.83%	29.80%	29.83%	29.83%	29.83%
Italy	32.15%	32.10%	32.14%	32.86%	32.87%	41.32%	32.82%	32.82%
Spain	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
United Kingdom	30.00%	28.00%	28.00%	26.00%	24.00%	23.00%	21.00%	20.00%

Table A.2.2: Effective tax rates, 2006-2014.

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014
France	34.36%	35.56%	34.81%	35.24%	34.97%	34.60%	35.07%	34.42%	34.90%
Germany	39.22%	41.26%	32.14%	31.44%	31.71%	32.10%	31.92%	32.54%	33.04%
Italy	42.17%	44.54%	39.38%	40.25%	43.75%	43.70%	38.14%	48.40%	37.41%
Spain	37.70%	32.86%	30.03%	29.83%	30.17%	30.19%	29.29%	30.02%	29.88%
United Kingdom	30.00%	29.95%	29.39%	28.11%	28.30%	27.26%	24.45%	24.39%	21.98%

Characteristics of the Italian Banking sector

Table A.2.3: number of banks, 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
System	712	726	715	697	668	651	620	591	567
by type									
BCC	433	438	432	416	406	405	389	377	368
POP	38	39	38	36	36	37	37	37	34
SPA	241	249	245	245	226	209	194	177	165
by size									
Biggest	11	8	7	7	4	5	5	5	5
Large	11	12	11	12	11	9	8	7	7
Medium	30	35	32	31	30	27	28	26	25
Small	101	125	124	122	115	108	103	97	91
Minor (upper case)	52	66	65	67	62	60	57	53	52
Minor (lower case)	139	169	168	165	161	160	155	147	146
Minor (minimal)	368	311	308	293	285	282	264	256	241

Table A.2.4: total assets (millions of euros), 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
System	2,481,615	2,702,227	3,045,526	3,200,535	2,924,279	2,989,582	3,047,427	2,853,458	2,855,280
by type									
BCC	136,568	150,210	166,101	173,074	177,392	186,572	206,321	211,363	222,289
POP	252,617	257,716	298,870	329,288	378,342	448,132	479,241	477,419	480,212
SPA	2,092,431	2,294,301	2,580,555	2,698,174	2,368,544	2,354,879	2,361,865	2,164,676	2,152,779
by size									
Biggest	1,012,698	1,086,455	1,225,681	1,318,075	1,132,126	1,263,028	1,276,628	1,182,023	1,181,485
Large	340,800	435,363	479,659	513,309	518,911	501,751	466,015	423,794	435,151
Medium	511,916	570,168	646,315	658,516	592,373	505,757	522,151	467,185	482,589
Small	389,808	434,277	491,457	502,354	473,869	503,675	546,925	541,006	513,952

Minor (upper case)	68,845	60,727	68,051	71,484	67,498	67,490	74,295	73,177	72,145
Minor (lower case)	73,255	74,854	85,371	88,150	90,541	94,925	102,770	103,146	102,120
Minor (minimal)	84,294	40,383	48,992	48,649	48,961	52,956	58,643	63,127	67,838

Table A.2.5: total assets, percentages, 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
by type	5.5	5.56	5.45	5.41	6.07	6.24	6.77	7.41	7.78
BCC	10.18	9.54	9.81	10.29	12.94	14.99	15.73	16.73	16.9
POP and SPA	84.32	84.9	84.73	84.3	81	78.77	77.5	75.86	75.33
by size									
Biggest	40.81	40.21	40.25	41.18	38.71	42.25	41.89	41.42	41.34
Large	13.73	16.11	15.75	16.04	17.74	16.78	15.29	14.85	15.23
Medium	20.63	21.1	21.22	20.58	20.26	16.92	17.13	16.37	16.81
Small	15.71	16.07	16.14	15.7	16.2	16.85	17.95	18.96	18.02
Minor (upper case)	2.77	2.25	2.23	2.23	2.31	2.26	2.44	2.56	2.52
Minor (lower case)	2.95	2.77	2.8	2.75	3.1	3.18	3.37	3.62	3.69
Minor (minimal)	3.4	1.49	1.61	1.52	1.67	1.77	1.92	2.22	2.39

Table A.2.6: net income (loss) before tax (millions of euros), 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
System	30,897	29,685	12,897	11,518	12,429	-23,012	-4,715	-23,812	-9,318
by type									
BCC	1,607	1,883	1,459	903	576	569	652	64	538
POP and SPA	29,290	27,802	11,438	10,576	11,853	-23,581	-5,366	-23,876	-9,855
by size									
Biggest	14,127	12,297	4,218	2,200	3,824	-23,487	-6,966	-21,469	-8,029
Large	4,290	3,154	1,792	2,583	2,420	-4,405	748	718	524
Medium	5,332	6,494	2,724	3,873	3,310	2,898	290	-3,916	-2,811
Small	4,522	5,515	2,607	1,974	2,268	1,203	503	1,382	425
Minor (upper case)	816	775	647	374	263	175	191	-138	142

Minor (lower case)	849	998	599	269	215	430	304	341	202
Minor (minimal)	960	451	309	206	129	173	216	-730	230

Table A.2.7: net income (loss) after tax (millions of euros), 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
System	22,918	21,016	11,463	8,040	9,162	-22,018	-2,220	-21,380	-8,484
by type									
BCC	1,232	1,455	1,121	651	355	307	430	11	371
POP and SPA	21,686	19,562	10,342	7,386	8,807	-22,325	-2,650	-21,391	-8,855
by size									
Biggest	11,815	9,947	6,005	2,183	3,457	-20,707	-3,576	-17,690	-6,344
Large	2,911	2,229	1,255	1,818	1,729	-4,293	363	434	-19
Medium	3,454	3,764	1,607	2,510	2,368	1,717	487	-3,896	-2,384
Small	2,939	3,514	1,535	1,029	1,316	846	41	438	-61
Minor (upper case)	533	523	426	233	142	49	109	-140	72
Minor (lower case)	604	745	446	151	111	295	225	43	108
Minor (minimal)	663	295	189	115	40	75	130	-569	142

Table A.2.8: accrued taxes (millions of euros), 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
System	7,979	8,668	1,435	3,442	3,266	-994	-2,495	-2,432	-833
by type									
BCC	375	428	338	252	221	262	221	139	167
POP and SPA	7,604	8,240	1,097	3,190	3,046	-1,256	-2,716	-2,571	-1,000
by size									
Biggest	2,313	2,350	-1,786	17	367	-2,779	-3,390	-3,779	-1,685
Large	1,379	925	537	765	690	-112	385	284	543
Medium	1,879	2,730	1,118	1,363	942	1,181	-198	-20	-428
Small	1,584	2,001	1,072	946	952	357	462	944	486
Minor (upper case)	283	253	221	141	121	127	82	2	70

Minor (lower case)	245	253	153	118	105	135	79	298	94
Minor (minimal)	298	156	120	91	89	98	86	-161	87

Table A.2.9: deferred tax assets (millions of euros), 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
System	12,070	9,532	18,072	19,977	23,162	39,265	42,059	46,206	47,554
by type									
BCC	363	301	382	458	755	1,453	1,213	1,687	2,214
POP and SPA	11,707	9,231	17,690	19,520	22,406	37,812	40,845	44,519	45,339
by size									
Biggest	5,768	4,005	11,048	11,338	12,610	24,135	26,253	28,344	28,333
Large	1,640	1,251	1,127	1,579	2,165	3,693	3,065	3,345	3,623
Medium	2,228	2,211	3,148	3,828	4,419	4,816	6,236	6,952	7,475
Small	1,684	1,563	2,152	2,555	3,003	4,857	4,944	5,308	5,667
Minor (upper case)	224	149	179	209	272	469	435	645	787
Minor (lower case)	232	191	237	285	432	751	696	868	1,072
Minor (minimal)	295	162	181	183	260	543	430	744	596

Table A.2.10: net deferred tax assets (millions of euros), 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
System	6,583	3,800	14,120	17,177	20,387	36,249	38,117	42,716	43,843
by type									
BCC	92	238	202	314	659	1,354	909	1,369	1,534
POP and SPA	6,492	5,493	13,917	16,864	19,728	34,895	37,208	41,350	42,309
by size									
Biggest	3,956	2,418	9,289	10,620	11,806	23,067	24,759	27,066	27,205
Large	806	1,031	458	917	1,555	3,206	2,536	2,803	2,894
Medium	869	1,096	2,503	3,204	3,717	4,099	5,502	6,393	6,997
Small	660	876	1,509	1,948	2,476	4,358	4,192	4,557	4,909
Minor (upper case)	67	121	83	137	218	420	345	561	645

Minor (lower case)	58	132	146	207	380	698	542	714	786
Minor (minimal)	168	58	132	145	233	401	240	622	407

Table A.2.11: accrued tax ratio, 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
System	28.82%	31.75%	14.91%	37.98%	31.89%	4.01%	41.20%	9.67%	5.43%
of which indirect tax	1.69%	1.04%	4.91%	4.82%	4.02%	-1.69%	-9.00%	-2.57%	-6.41%
by type									
BCC	23.44%	22.81%	23.27%	34.54%	38.75%	46.55%	34.78%	93.59%	31.92%
POP and SPA	29.15%	32.40%	13.42%	38.39%	31.48%	4.95%	40.59%	11.62%	9.03%
by size									
Biggest	19.10%	20.22%	-59.04%	-3.36%	14.71%	11.23%	43.40%	16.82%	18.87%
Large	37.61%	43.27%	69.68%	37.35%	32.16%	2.35%	91.72%	51.44%	184.31%
Medium	36.88%	44.78%	55.85%	40.28%	33.15%	42.37%	-117.76%	49.00%	16.16%
Small	37.02%	38.02%	46.18%	47.24%	43.84%	31.61%	97.35%	71.86%	74.89%
Minor (upper case)	37.01%	33.63%	34.24%	42.73%	46.32%	72.56%	43.11%	-1.36%	51.74%
Minor (lower case)	29.86%	25.72%	27.62%	51.90%	52.10%	31.72%	26.59%	88.16%	69.47%
Minor (minimal)	31.08%	34.79%	39.28%	71.35%	70.22%	57.35%	41.08%	22.68%	52.43%

Table A.2.12: deferred tax assets (percentage of total assets), 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
System	0.49%	0.35%	0.59%	0.63%	0.79%	1.31%	1.38%	1.62%	1.66%
by type									
BCC	0.27%	0.20%	0.23%	0.26%	0.43%	0.78%	0.59%	0.80%	0.96%
POP and SPA	0.50%	0.36%	0.61%	0.66%	0.82%	1.35%	1.44%	1.69%	1.72%
by size									
Biggest	0.57%	0.37%	0.90%	0.88%	1.11%	1.91%	2.06%	2.40%	2.40%
Large	0.48%	0.29%	0.23%	0.31%	0.42%	0.74%	0.66%	0.79%	0.83%
Medium	0.44%	0.39%	0.49%	0.61%	0.75%	0.95%	1.19%	1.49%	1.55%
Small	0.43%	0.36%	0.44%	0.50%	0.63%	0.96%	0.90%	0.98%	1.10%

Minor (upper case)	0.33%	0.25%	0.26%	0.26%	0.40%	0.70%	0.59%	0.88%	1.09%
Minor (lower case)	0.32%	0.25%	0.28%	0.31%	0.48%	0.79%	0.68%	0.84%	1.02%
Minor (minimal)	0.35%	0.40%	0.37%	0.37%	0.53%	1.02%	0.73%	1.18%	0.87%

Table A.2.13: deferred tax assets convertible into tax credit (percentage of total assets), 2010-2014

	2012	2013	2014
System	0.96%	1.34%	1.41%
by type			
BCC	0.40%	0.66%	0.86%
POP and SPA	1.00%	1.40%	1.46%
by size			
Biggest	1.49%	2.04%	2.07%
Large	0.45%	0.61%	0.66%
Medium	0.87%	1.20%	1.31%
Small	0.46%	0.76%	0.90%
Minor (upper case)	0.39%	0.73%	0.99%
Minor (lower case)	0.44%	0.68%	0.87%
Minor (minimal)	0.46%	0.97%	0.70%

Table A.2.14: deferred tax assets net of deferred tax liabilities (percentage of total assets), 2006-2014

	2006	2007	2008	2009	2010	2011	2012	2013	2014
System	0.27%	0.14%	0.46%	0.54%	0.70%	1.21%	1.25%	1.50%	1.53%
by type									
BCC	0.07%	0.04%	0.12%	0.18%	0.37%	0.73%	0.44%	0.65%	0.69%
POP and SPA	0.28%	0.15%	0.48%	0.57%	0.72%	1.24%	1.31%	1.56%	1.61%
by size									
Biggest	0.39%	0.15%	0.76%	0.82%	1.04%	1.83%	1.94%	2.29%	2.31%
Large	0.24%	0.05%	0.10%	0.18%	0.30%	0.64%	0.54%	0.66%	0.67%
Medium	0.17%	0.20%	0.39%	0.51%	0.63%	0.81%	1.05%	1.37%	1.45%
Small	0.17%	0.16%	0.31%	0.39%	0.52%	0.87%	0.77%	0.84%	0.95%

Minor (upper case)	0.10%	0.05%	0.12%	0.16%	0.32%	0.62%	0.46%	0.77%	0.89%
Minor (lower case)	0.08%	0.08%	0.17%	0.23%	0.42%	0.74%	0.53%	0.69%	0.75%
Minor (minimal)	0.20%	0.26%	0.27%	0.29%	0.48%	0.76%	0.41%	0.99%	0.60%

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