

PRESS RELEASE

**Banks: ABI, effective tax rate increases to 44%**

*ABI Workshop for presentation of the Annual Report of the Economic and Tax Analysis Observatory. Focus on the taxation level for Italian banks, analysis of the regulatory scenario and international proposals for new 'taxes' against systemic risk*

Briefing in Milan today on banks and Inland Revenue. A full day of discussions and analysis of the effects of tax regulations on the Italian banking sector. Strong developments in the regulatory scenario – the latest measures including the “Robin Tax”, 2008 changes to IRES and IRAP – accompanied by high tax rates. Specifically – from ABI’s Economic and Tax Analysis Observatory Report – it emerges that in 2008, the last year readable in terms of income tax returns, the direct tax rate reached 43.9%, significantly higher than the averages for 2000-2006 (+12 percentage points).

The report brings to light a number of tax-related characteristics of Italian banks: from pro-cyclic elements, more evident in negative phases of the economic cycle, to the marked tendency of the Italian tax system to calculate consistent prepayments of DTA which in 2008 recorded a net balance of over 16 billion euro. This figure emphasises a financial handicap and constitutes a potential disadvantage in terms of competition with the European banks, which could become stronger in the light of recent proposals for review of the Basel Accords on regulatory capital.

Also among the main topics for discussion at the ABI seminar, attended by representatives of the Italian, European and international banks, are ‘global’ tax regulation and proposals in the wake of the current international debate: from a ‘stability tax’ to the proposal for a new form of levy to overcome the current financial crisis, and the option of setting up a ‘future crisis fund’.

“In a scenario persistently characterised by financial stress and a still fragile recovery,” comments Giovanni Sabatini, ABI General Manager, “the recent proposals on the agenda for the international economy on a potential new global “tax” on banks raise a number of queries. We agree with the need to converge and standardise international regulations, but we have to bear in mind that – especially in tax issues – the proposals affect strongly differentiated national laws and could therefore widen, rather than bridge, the competitive gap. In addition, we have to guarantee system simplicity and coordination of the rules on prudence, accounting, transparency and fairness of the tax system”.

Eliminato:

“Taxation and regulation,” Mr Sabatini concluded, “should be considered factors that have a strong influence on business competitiveness. This is particularly true in banking, which in our country has proved strong and sound against the kickbacks of the crisis, continuing its support for households and enterprise. First of all we have to eliminate the detrimental factors in Italy and consider the introduction of new tax levies. We hope that the fact that governments in several countries have had to make use of public funds to save their banks, whilst in others – including Italy – this hasn’t been necessary, is taken into consideration”.



Fonte: Elaborazioni Osservatorio Analisi Economica Fiscale su dati bilancio consolidato 2008

On the European scenario, in 2008 Italian banks maintained their position in a country which has one of the highest levels of taxation, with a tax rate 15 percentage points higher than the European average.

This represents a competitive handicap that inevitably reflects on the capacity to produce returns on invested capital, on growth potential, on options for playing an active role in business combinations and reconstruction. The continued discouraging developments in the economic context and the particular nature of current regulations (such as those relating to credit and interest) forecast that the tax rate may become even more of a burden in the next few years, with the risk of widening the competitive gap with other European countries.

Also analysed during the meeting were the adjustments to 2008 IRES and IRAP. It was pointed out that the positive effects of the 2008 reform were downsized by the tax system presence of regulations with pro-cyclic effects, i.e. regimes allowing partial deductibility of interest expense and deductibility of loan write-downs.

In 2009 the regulatory framework remained essentially unchanged, the only important exception being the repeal of VAT exemption on intra-group services, which at arm's length conditions generate an increase in indirect taxation for the banks.

On issues linked to banks' tax losses, ABI participates in the technical task force set up by the Italian Inland Revenue on the project launched by the OECD. The aim is to examine aspects of specific interest to Italian banks, such as the treatment of loan loss and the relationship between tax levies and regulations on deferred tax matters, and to develop projects on hot topics such as the "Code of Conduct". The initiative offers a bilateral model in which the individual business and related tax administration are jointly committed to greater transparency and fairness in tax relations.

Milan, 25 May 2010