

# HAVE EUROPEAN BANKS LEFT TAX HAVENS? EVIDENCE FROM COUNTRY-BY-COUNTRY DATA

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**Link to report :** <https://www.taxobservatory.eu/have-european-banks-left-tax-havens-evidence-from-country-by-country-data/>

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# Introduction

Recent empirical research in taxation documents the use of tax havens and profit shifting activities by banks (Bouvatier et al., 2018; Dutt et al., 2019; Janský, 2020, Fatica and Gregori, 2020).

In 2013, the EU Directive CRD IV required European banks to disclose key information by country of operation.

We use country-by-country reporting data published to answer the following questions:

- To which extent banks use tax havens?
- How did this use change over the past seven years of mandatory country-by-country reporting?
- By how much do European countries stand to gain in tax revenue from the banking sector if a global minimum tax was introduced?

## Key Findings

European banks use tax havens significantly over 2014 to 2020, booking there 14% of their aggregated profits annually.

There is some heterogeneity across banks. The percentage of profits booked in tax havens ranges from 0% to 58%.

In this context a minimum tax has an important revenue potential, a 25% minimum tax rate would raise EUR 10-13 billion in additional taxes annually, considering our sample of banks.

# Roadmap

- 1. Data and methodology**
- 2. Banks in tax havens: aggregate trends**
- 3. Heterogeneity across banks**
- 4. Tax deficit**

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## Our data

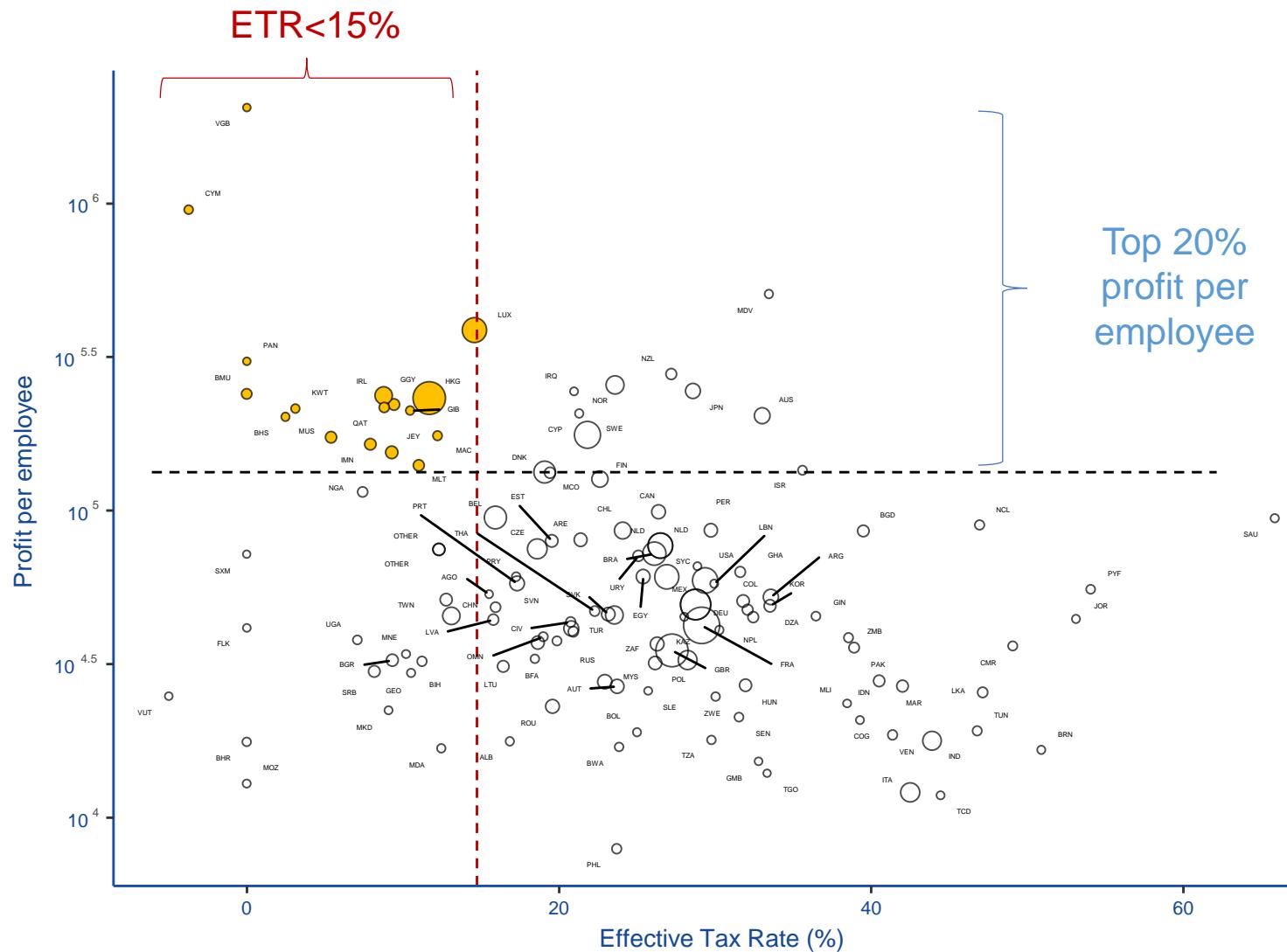
### **EU Capital Requirements Directive IV**

- Country-by-country reporting compulsory for all financial institutions since 2015
- The following variables are reported on for all affiliates on a country-by-country basis: Turnover, profit or loss before tax ,number of employees, tax on profit or loss, public subsidies received

### **Our sample**

- Data hand-collected for the period 2014 to 2020 (Barake, 2021)
- 36 systematically important banks headquartered across 11 European countries
- Active in over 130 jurisdictions

# Identification of tax havens



## Two criteria

- **Profit per employee:** capture jurisdictions with low substantial activities in proportion to their profits
  - Top 20% jurisdictions
- **Effective tax rates:** measure the effective tax rate applied on profits
  - Jurisdictions with effective tax rate lower than 15%

# Tax havens jurisdictions

## Profit per employee

- On average EUR 400 000, 7 times the average of the sample EUR 51 000
- Highest profitability observed in British Virgin Islands, Cayman Islands and Luxembourg

## Effective tax rates

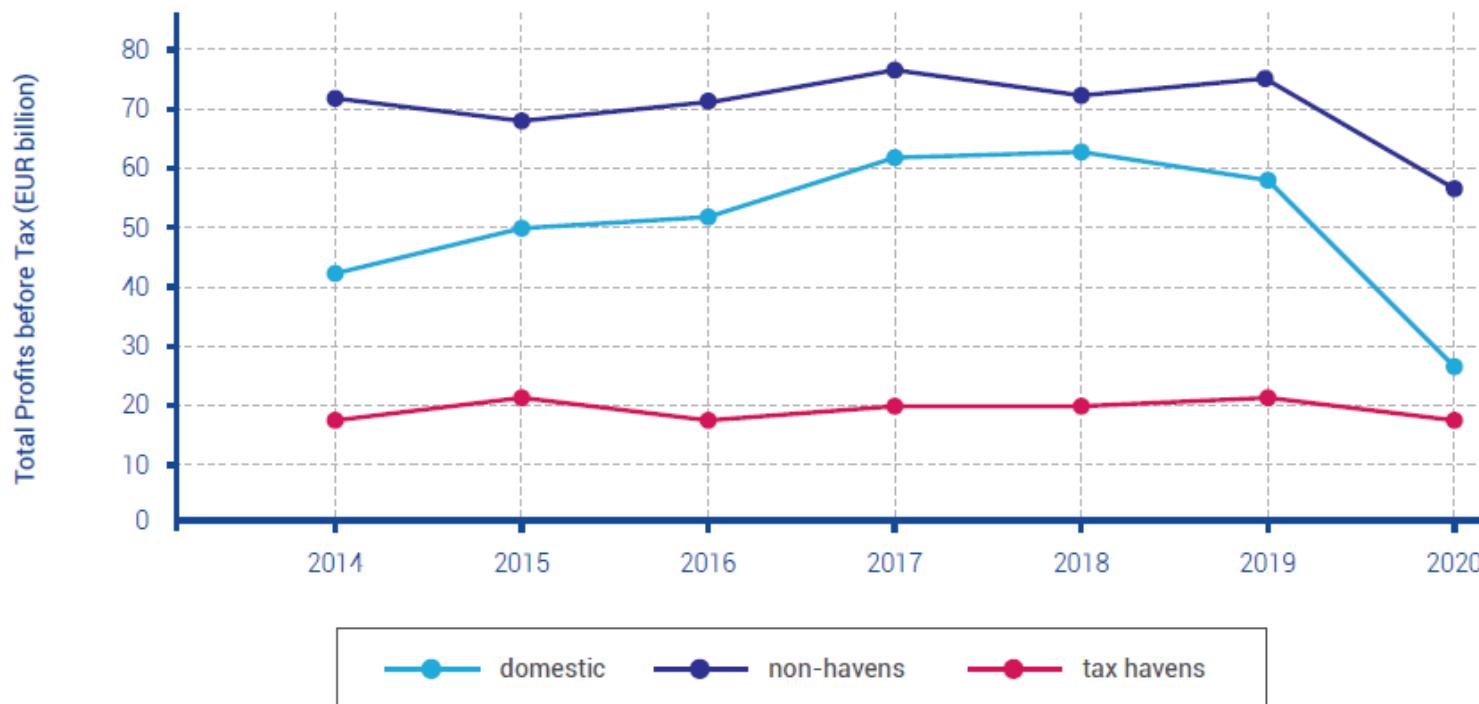
- Sample mean of 20%
- Zero rates in British Virgin Islands, Panama and Bermuda

Tax Havens used by Banks		
Bahamas	Hong Kong	Macao
Bermuda	Ireland	Malta
British Virgin Islands	Isle of Man	Mauritius
Cayman Islands	Jersey	Panama
Gibraltar	Kuwait	Qatar
Guernsey	Luxembourg	

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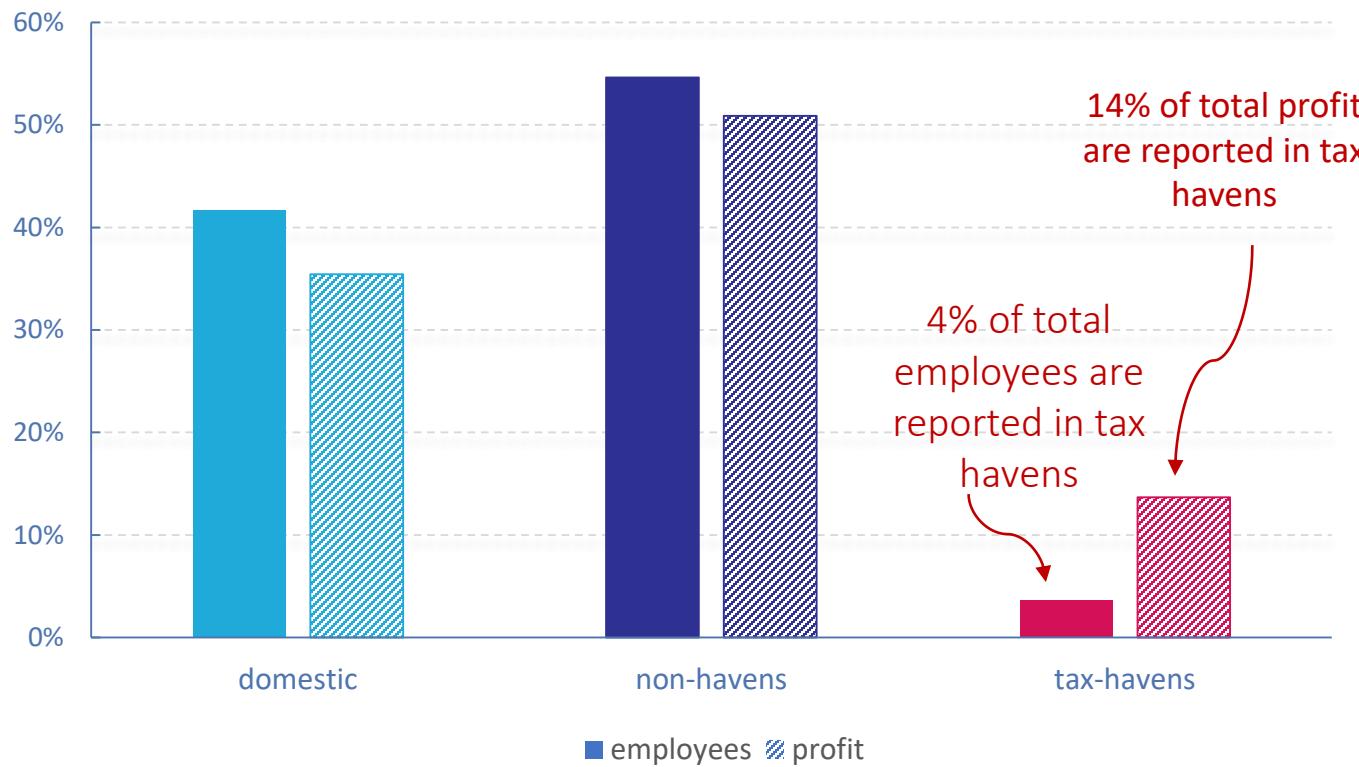
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## Banks in tax havens: aggregated trends



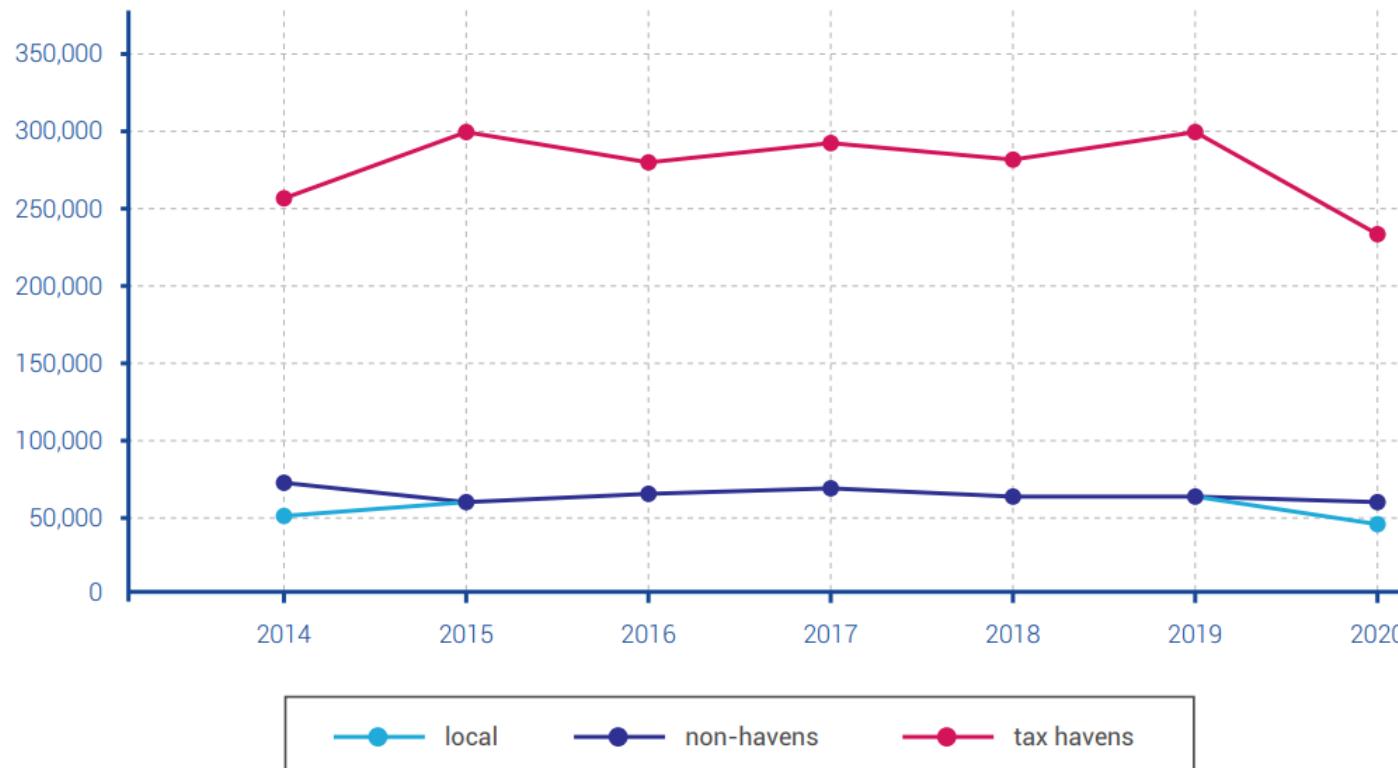
- 35% (about EUR 50 billion) of total profits from operations in domestic market
- 65% (about EUR 94 billion) from activities abroad through affiliates
- 14% (about EUR 20 billion) in tax havens. This share has been stable over the past 7 years

## Distribution of profit and employees across country groups



- Profits booked in tax havens are on average 14% of the total, while employees only 4% of the total.
- In domestic and other foreign jurisdictions the portion of reported employees is higher than profit.
- On average, domestic jurisdictions account for 42% of total employees and 35% of profit
- While non-haven foreign jurisdictions account for 55% of employees and 51% of profit

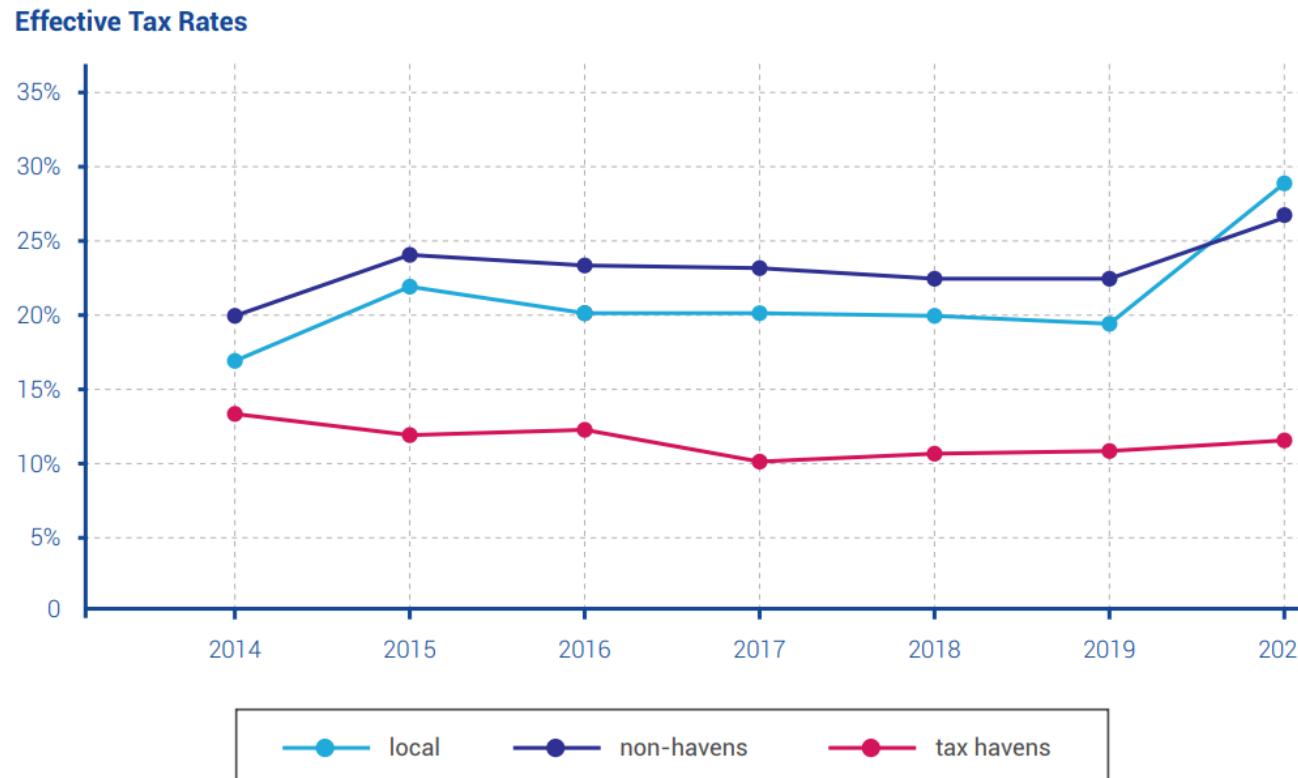
# Profitability trends



In the selected tax haven, the profitability is persistently high as compared to the other country groups.

Profitability in tax havens is on average EUR 283 000 as compared to EUR 68 000 in non-havens and EUR 63 000 in the domestic market.

# Trends in Effective Tax Rates



In the selected tax havens the effective tax rate (ETR) is persistently lower as compared to the other country groups.

The ETR in tax havens is on average 12% as compared to 21% in non-havens and 23% in the domestic market.

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# Heterogeneity across Banks

## Effective Tax Rate across Banks

The mean effective tax rate in our sample is 20%, and it ranges from 10% to 30% depending on the bank.

Seven banks in our sample exhibit an effective tax rate, lower or equal to 15%.

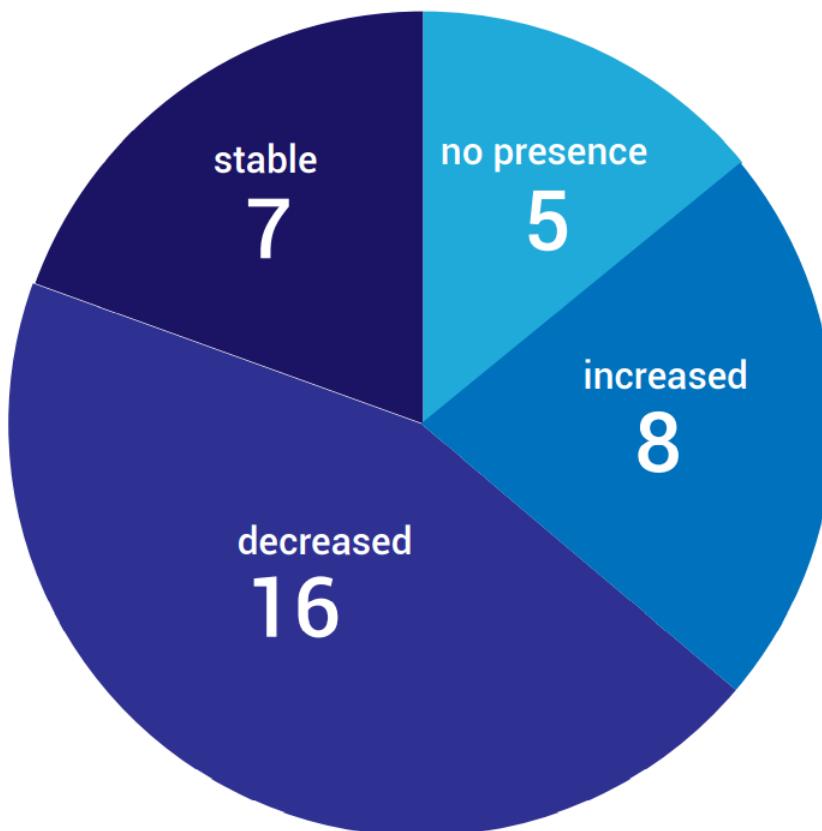
Only 5 banks have an effective tax rate that is above 25%.

## Profits before tax across Banks

We observe that the mean percentage of profits booked in tax havens ranges from a minimum of 0% for 5 banks in our sample to a maximum of 58% for HSBC.

# Pre-tax Profits across Banks

Change of Presence in Tax Havens



8 banks increased their presence in tax havens by an average of 6 percentage points

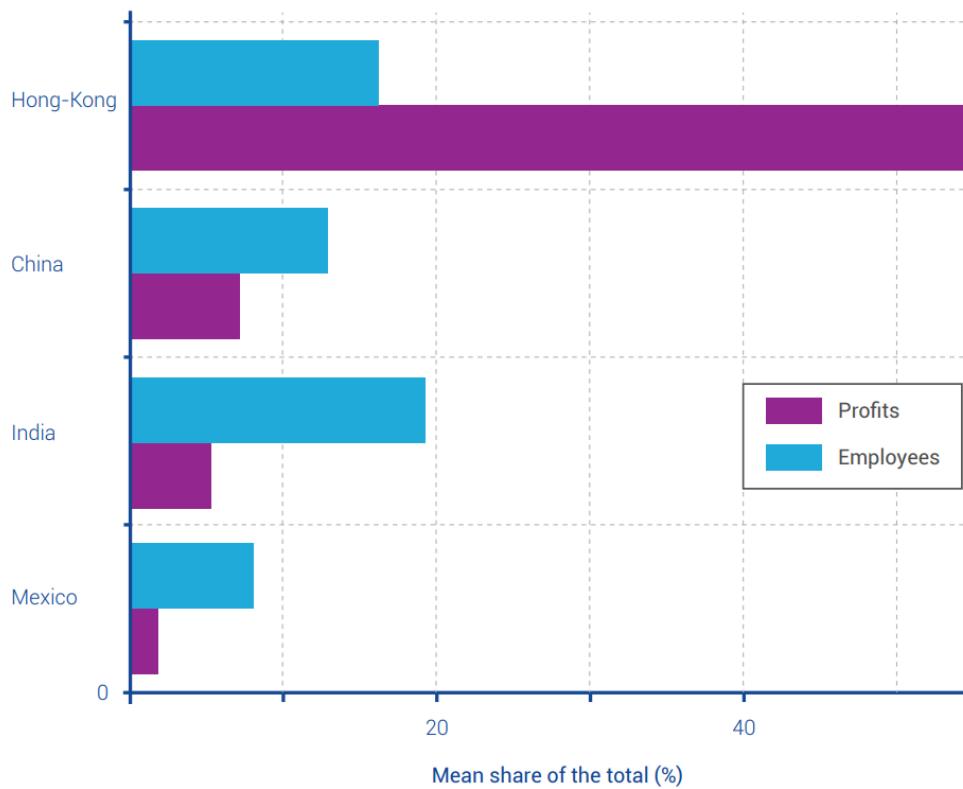
7 banks have stable presence

5 banks with no presence

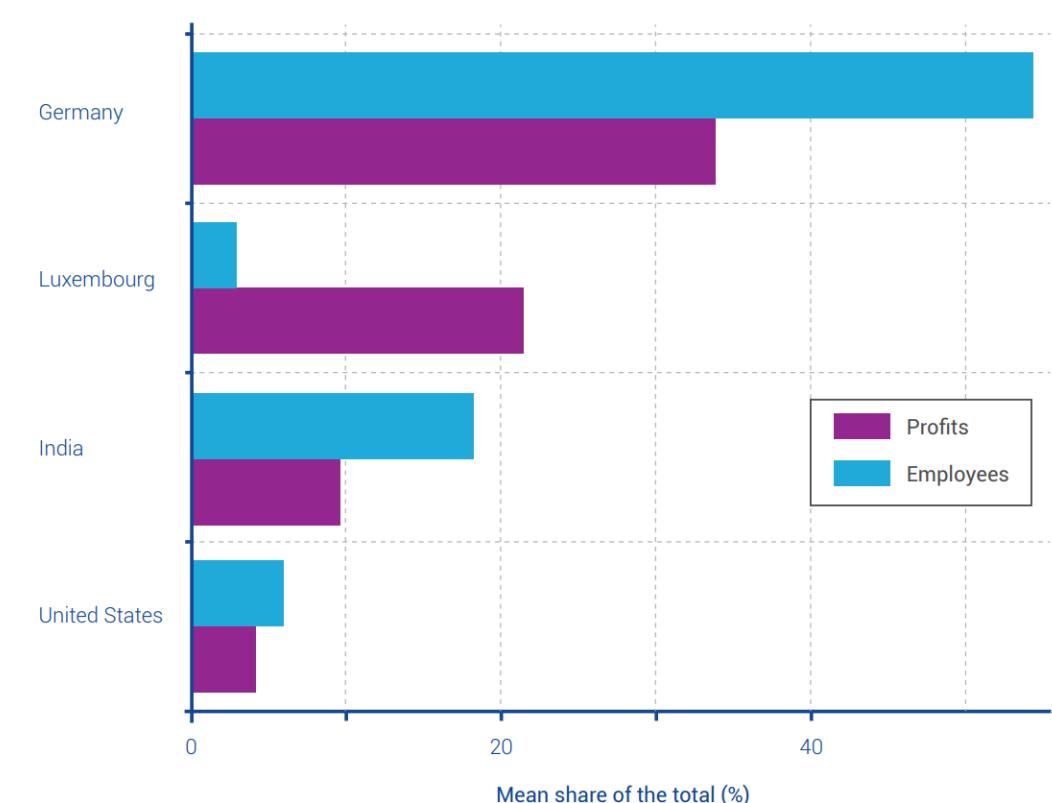
16 banks decreased their presence in tax havens by an average of 7 percentage points.

# Profits and employees across Banks

HSBC Pre-Tax Profits and Employees



Deutsche Bank Pre-Tax Profits and Employees



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## International tax reform

Banks are excluded from Pillar 1 but will be included in Pillar 2

Pillar 2 : minimum tax of 15% will most probably be applied

Tax deficit is to collect the difference where the affiliate has an effective rate lower than 15%

These revenues would be collected by the headquarter of the bank

# Tax Deficit Revenues

Banks' Tax Deficit by Year and Partner Country Group (in EUR m)

	2014	2015	2016	2017	2018	2019	2020
<b>15% minimum tax</b>							
Non-havens	2,412	1,528	1,466	1,861	1,121	1,539	900
Tax havens	560	934	662	1,120	1,135	896	603
Domestic	1,405	403	721	1,728	815	1,375	198
Total	4,377	2,864	2,849	4,708	3,071	3,810	1,701
<b>21% minimum tax</b>							
Non-havens	4,369	2,931	2,902	3,605	2,853	3,054	1,951
Tax havens	1,458	2,026	1,587	2,194	2,195	2,080	1,349
Domestic	2,418	1,397	1,485	3,001	2,527	2,496	467
Total	8,246	6,354	5,974	8,801	7,576	7,631	3,767
<b>25% minimum tax</b>							
Non-havens	6,083	4,270	4,382	5,541	4,562	4,478	3,047
Tax havens	2,098	2,834	2,256	2,953	2,942	2,887	1,915
Domestic	3,582	2,533	2,812	4,466	4,360	3,931	921
Total	11,763	9,638	9,450	12,959	11,864	11,296	5,882

The possible revenues from this tax from European banks:

- 15%: 3 to 5 b €
- between 10-16% of EU banks CIT revenues
- 2 to 4 b € with carve-outs) or 6-13% of CIT

# Tax Deficit Revenues by HQ

Total Collectible Tax Deficit by Headquarter Country and Year (in EUR m)

	2014	2015	2016	2017	2018	2019	2020
United Kingdom	875	939	796	1,549	1,099	1,471	940
France	490	525	524	476	356	314	343
Italy	68	194	139	366	268	156	69
Germany	277	179	283	198	172	95	49
Sweden	38	28	73	18	9	14	29
Spain	1,074	363	133	138	224	287	27
Netherlands	120	141	47	89	47	43	26
Austria	10	43	75	77	6	21	10
Belgium	17	30	58	53	58	8	5
Finland	.	.	.	.	7	18	4
Denmark	2	20	2	17	10	9	2

Top countries benefiting (with carve-outs)

- United Kingdom (€600m- €1 200m or 11-21% of CIT)
- France (€280m-€400m or 4-6% of CIT)

# Conclusion

- Banks' profits in tax havens seem to be stable over time
- The banks are heterogeneous and some are more tax aggressive
- The different profitability ratios suggest that the banks in tax havens either are involved with some degree of profit shifting or are benefiting from other multinationals placements
- More transparency needed towards the activity of banks through the CbCR
- A minimum tax rate might discourage the banks' use of the low tax countries and tax havens by decreasing the race to the bottom of tax rates
- 15% minimum tax rate would generate 2 to 4 billion euros (with carve-outs), revenues would increase if the chosen rate of the minimum tax increases



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