EUROPEAN COMMISSION

Brussels, 28.9.2011
SEC(2011) 1102 final

Vol. 9

COMMISSION STAFF WORKING PAPER

IMPACT ASSESSMENT

Accompanying the document

Proposal for a Council Directive

on a common system of financial transaction tax and amending Directive 2008/7/EC

{COM(2011) 594 final}
{SEC(2011) 1103 final}

ANNEX 8

COUNTRY EXPERIENCES

1. TRANSFER TAX AND STAMP DUTIES

Belgium

In Belgium, there is securities tax (referred to as “tax on stock exchange transactions” or “stamp duties”) which applies to certain transactions concluded or executed in Belgium through a Belgian professional intermediary, to the extent that they relate to public funds, irrespective of their (Belgian or foreign) origin. The tax is not due upon subscription of new securities (primary market transactions)

The transactions in scope are:

- every sale, purchase and, in general, every transaction for valuable consideration (secondary market transactions) On a given secondary market transaction, the tax is due twice: in the hands of the seller (sale) and in the hands of the buyer (purchase) provided that the transaction is carried out between Belgian parties;
- every redemption of its own shares by an investment company provided that the redemption relates to "accumulating shares".

All types of financial instruments are covered, for instance equity, shares of investment companies, bonds, and some derivative instruments. However, the transaction must relate to public funds. The notion "public funds" refers to all marketable securities, which, by their nature, are susceptible of being traded on an organized exchange.

The tax is not due if no Belgian intermediary acting in the course of its business intervenes in the transaction (being the acquisition or sale of the securities). By “Intermediary” it is understood any person whose professional activity consists of carrying out stock exchange transactions.

The tax is levied on the following base:

- for acquisition or purchases, on the sums to be paid by the purchaser after deduction of the brokerage commission;
- for sales, on the sums to be received by the seller or assignor, without deducting the brokerage commission;
- for redemptions of own accumulating shares by a SICAV, on the Net Asset Value (hereafter “NAV”), without any deduction of lump sum charges;

for redemptions of own accumulating shares being “in scope” for article 19*bis* of the Belgian Income Tax Code (i.e. SICAVS with EU passport investing for more than 40% in receivables / debts securities for which a withholding tax is due upon liquidation / redemption of own shares) on the NAV, without any deduction of lump sum charges, but reduced by the withholding tax withheld.

The rate of the tax on stock exchanges transactions varies in accordance with the type of transactions, as follows:

- 0,07 % (subject to a maximum of EUR 500 per transaction) for distributing shares of investment companies, certificates of contractual investment funds (i.e. without legal personality), bonds of the Belgian public debt or the public debt of foreign states, nominative or bearer bonds, certificates of bonds, etc.
- 0,5 % (subject to a maximum of EUR 750 per transaction) for accumulating shares of investment companies, such as SICAVs - 0,17 % (subject to a maximum of EUR 500 per transaction) for any other securities (such as shares).

There are also some specific exemptions from the tax, amongst which the most important ones in practice:

- transactions made for its own account by some financial institutions, such as banks, insurance companies, organizations for financing pensions (OFPs), undertakings for collective investment, etc.;
- transactions made for its own account by non-resident taxpayers.

The tax normally has to be paid by the liable intermediary at the latest on the last working day of the month following the month during which the transaction was executed. The Belgian professional intermediary is liable to pay the tax to the competent Belgian tax authorities. The tax is supported by the person/entity concluding or executing the transaction (the buyer and/or the seller).

Finland

Finland imposes transfer tax on the transfer of certain Finnish securities, mainly equities (e.g. on the basis of delivery of the underlying of an equity derivative), ifthe transferee and/or transferor is a Finnish resident or a Finnish branch of certain financial institutions.

Finnish transfer tax counts on several exceptions, e.g. no transfer tax is payable if the equities in question are subject to trading on a qualifying market (even if the transfer is carried out as an OTC transaction).

Transactions related to equities, profit participating loans and options to subscribe for shares are subject to this tax. However, Finnish transfer tax is applicable to bonds, debt securities and derivatives.

The taxable base of the Finnish transfer tax is the sales price or other consideration. The applicable tax rate is 1.6% and the tax is due upon transfer of the legal title.

Generally, the transferee is liable to pay the Finnish transfer tax, although the broker may also be so in certain cases.

Greece

Greece applies a transaction duty on the sale of Greek listed shares at a rate of 0.15% (0.2% as of 1.4.2011) on the gross sales proceeds. This tax applies to traded financial instruments treated as compound products (equity swaps, call options, futures). The transaction duty, which burdens the seller of the listed shares, is directly withheld upon each settlement of the transaction and paid by the Stock Exchange Depository SA to the competent tax authorities through the filing of a return within the first fifteen days of month following the one within which the transactions took place.

The OTC transfers of Greek listed shares are also subject to the transfer duty of 0,15% on the sale price. The Athens Stock Exchange SA shall collect and attribute the transaction duty through the filing of a return to the competent tax office within the first fifteen days of the month following the one within which the OTC transactions took place. In such case, the connecting factor is the fact that the shares at stake are "Greek listed shares".

Greek transaction duty also applies on the sale of foreign listed shares by Greek tax payers (i.e. Greek resident individuals, Greek enterprises and Greek branches of foreign entities). In such case the seller should pay the duty due by the filing of a return within the first fifteen days of month following the one within which the transactions took place.

Pursuant to a draft tax bill submitted before the Greek Parliament on 21/2/2011, the Greek transaction duty might be abolished for the sale of listed shares initially acquired after 1.1.2012.

Poland

In Poland, the sale or exchange of property rights, which includes securities and derivatives, is subject to the Civil Law Activities Tax (CLAT).

Polish CLAT applies to transactions involving securities and derivatives which grant property rights that are to be exercised in Poland (for instance, Polish securities). If the property rights granted by the securities are to be executed outside Poland but the buyer is established in Poland and the transaction is performed in Poland.

Transactions related to Polish treasury bonds and Polish treasury bills, bills issued by the National Bank of Poland and some other specified securities are not subject to CLAT. OTC transactions, even if they include listed securities, might be subject to the CLAT, even if ransactions executed through an organised market (via stock exchange) are exempt.

The applicable tax is 1% rate on the market value of the securities or derivatives.

As a general rule, the buyer is liable for declaring and paying the tax.

United Kingdom

The UK stamp duty on transfers of securities consists of two instruments: (1) **Stamp duty** (charged on instruments of transfer) and (2) **Stamp Duty Reserve Tax** (SDRT) (charged on underlying agreements to transfer securities where an instrument is not executed).

The two go hand in hand when considering transaction taxes on shares. **Stamp Duties** in the UK are collected on documents used to effect the sale and transfer of ownership in shares and other securities of UK-based companies. In order to collect duties on transactions carried out through electronic share dealing systems, the **Stamp Duty Reserve Tax (SDRT)** was introduced in 1986. Stamp duties are levied on the underlying value of the transferred good. The standard rate is currently 0.5%.

Revenue from duties on the transfer stocks and shares also augmented over the last decade. After the economic downturn in 2001-02 revenue declined for two years in a row. From 2004-05 onwards revenue steadily increased despite the fact that the tax rate remained unchanged at 0.5% in this period. There are three main reasons for this development. Firstly, share prices increased significantly in recent years as a consequence of the economic boom. Secondly, volume of traded shares also increased since the number of incorporated companies increased. Lastly, turnover also augmented since shares have become important products for medium- and short-term investments. However, revenue declined also for this category in 2008-09. The reasons are the reduction in transactions volumes as well as significantly lower stock prices due to the financial crisis. This observation suggests that revenue from stamp duties is pro-cyclical with economic activity. In fact, revenue from stamp duties on transfers of financial assets was more than 30% lower in 2008-09 compared to 2007-08.

The SDRT taxes transactions in shares where no instrument of transfer is executed and which are therefore outside the scope of the "standard" Stamp Duty. In this sense, it is a transaction tax, levied on agreements to transfer chargeable securities while the "standard" Stamp Duty is charged upon documents. SDRT accounts for the majority of revenue collected on share transactions effected through the UK's Exchanges. On average almost 90% of revenues actually stem from the SDRT. Table (B.1) shows the revenue data for both types in the second and third column.[1] The fourth column shows the total revenue from the two sources. The peak is in 2000-01 just before the end of the Internet bubble. Columns 5 and 6 show the tax revenue in relation to total tax revenue and GDP. The Stamp Duty was on average about 0.7% of total tax revenue. In terms of GDP and total tax revenue the highest values have been reached during the boom years at the end of the last century, notably in 2000-01. For 2008-09 the value is back to the level of the mid 1990ies which is around 0.2% of GDP.

Both, SDRT and standard Stamp Duty are levied on share transactions in UK incorporated companies currently taxed at 0.5% of the purchase price of shares. It is charged whether the transaction takes place in the UK or overseas, and whether either party is resident of the UK or not. Securities issued by companies overseas are not taxed. This means that the tax is paid by foreign and UK-based investors who invest in UK incorporated companies. To put it differently, the tax is connected to the location of headquarters.

Table (B.1): Revenue from stamp duties on stocks and shares and other liable securities in the UK

[1] The split between the two levies is only available from 2001 onwards. Note that small differences between values single and sums occur due to rounding when converting revenues in Sterling Pound to Euro.

Year	SDRT	Standard Stamp duty	Stamp Duties Total Revenue	over Total Tax Revenue	over GDP
1995-96	n.a.	n.a.	1,810	0.59	0.20
1996-97	n.a.	n.a.	1,966	0.60	0.20
1997-98	n.a.	n.a.	3,033	0.73	0.25
1998-99	n.a.	n.a.	3,696	0.79	0.28
1999-00	n.a.	n.a.	5,617	1.10	0.40
2000-01	n.a.	n.a.	7,383	1.26	0.46
2001-02	4,218	367	4,586	0.77	0.28
2002-03	3,669	455	4,124	0.69	0.24
2003-04	3,280	418	3,698	0.65	0.22
2004-05	3,454	548	4,001	0.64	0.23
2005-06	4,105	961	5,067	0.77	0.28
2006-07	4,767	745	5,511	0.77	0.28
2007-08	5,372	716	6,091	0.82	0.30
2008-09	3,673	349	4,022	n.a.	0.22
			in m Euro	in %	in %

Source: HM Revenue and Customs and own calculations

Given the existence of the tax, one should observe that investors discount higher future transaction costs when trading shares. These costs should be capitalized in lower share prices. In fact, empirical studies show that the stamp duty influences the share prices negatively. More frequently traded shares are stronger affected than low-turnover shares. Therefore the tax revenue capitalizes at least to some extent in lower current share prices. For firms which rely on equity as marginal source of finance this may increase capital costs since the issue price of new shares would be lower than without the tax. Currently, there are no estimates on the effects on trading volumes and price volatility of the stamp duties in the UK. Given results from empirical studies on the effect of transaction costs on trade volumes it is likely that Stamp Duties reduce trade volumes significantly. Whether or not this increases price volatility is disputed, however, more recent studies tend to find a negative correlation between trade volumes and price volatility.

While it is possible to avoid stamp duty by executing and retaining the instrument outside the UK, in practice the need to get the company's share register changed to show the name of the new owner, combined with the restriction on unstamped instruments being given in evidence or used for any purpose whatever, means that most instruments of transfer are presented for stamping.

Stamp duty reserve tax is difficult to avoid because the vast majority of UK company shares are held in the CREST settlement system which automatically debits SDRT when they are transferred. Nevertheless, there are two mechanisms to avoid SDRT legally:

American depositary receipts (ADRs)

Many UK companies have ADR programmes which enable them to market themselves in the US. Shares are issued to a US depositary bank which issues "American depositary receipts" (ADRs) in respect of them. It is the receipts rather than the underlying shares that are traded on the US markets. Such trading is currently free from standard 0.5% SDRT transfer charges, but, to compensate, there is a charge instead (only paid once at the higher rate of 1.5%) when the shares are issued to the depositary bank. Placing shares into an ADR system is not regarded as avoidance.

Exchange Traded Fund (ETF)

An overseas collective investment scheme that lists on a UK exchange (ETF) currently qualifies for exemption from SDRT provided that it is not centrally managed and controlled in the UK or has a UK share register. The exemption was introduced in 2007 to encourage overseas ETFs to list in the UK and use of these schemes is thus legitimate. However, owners of an ETF share do not legally own the shares in the fund. If investors want to have voting rights the ETF cannot be used to avoid stamp duty.

Sweden

In the 1980s Sweden experienced strong growth of the financial sector.[2] This was accompanied by significant increases in the salaries of professionals in this sector. It was argued that the financial sector's contribution to the economy and the society was small compared to the resources it used. Furthermore, excessive financial transactions were seen as destabilizing the economy and as promoting disproportionate wage differentials between sectors. The latter point was politically of great importance. Despite the resistance of the Ministry of Finance, Sweden introduced a 50 basis points tax on the purchase or sale of equity securities in January 1984. A round trip transaction (purchase and sale) resulted therefore in a 100 basis points tax. The tax applied to all equity security trades in Sweden using local brokerage services as well as to stock options. The fact that only local brokerage services were taxed is in the literature seen as the main design problem of the Swedish system. Avoiding the tax only required using foreign broker services. In July 1986, the tax rate was increased to 100 basis points. In 1987, the tax base was extended and half the normal rate was also applied to transactions between dealers.

In January 1989, the tax base was widened again and a tax on fixed-income securities was introduced. The tax rate was considerably lower than on equities, as low as 0.2 basis points for a security with a maturity of 90 days or less. On a bond with a maturity of five years or more, the tax was three basis points. Only 15 months later, on 15 April 1990, the tax on fixed-income securities was abolished. In January 1991 the rates on the remaining taxes were cut by half and by the end of the year, they were also abolished completely.

There are different reasons for the abolishment of the tax. First of all, the revenues from the taxes were disappointing. The revenues from the tax on fixed-income securities were expected to amount to 1,500 million Swedish kroner per year, but the average was only around 50 million a year. Furthermore, since trading volumes fell, the capital gains tax became less and less applicable and revenue declined. The increase in revenue from equity transaction taxes was almost entirely offset by this reduction in capital gains taxes. The net budget effect was accordingly close to zero. An additional reason for the decline in revenue from capital gains taxes was the decline in share prices that accompanied the introduction of the transaction tax. The day the tax was announced, share prices fell by 2.2%. Taking into account possible trading based on insider information in the weeks before the official announcement, the price decline is estimated to have amounted to 5.35%. These declines were in line with the net present value of tax payments on future trades. Investors discounted the future payments and prices for equity decreased driving up capital costs accordingly.

Next to the low revenue generated from the tax, relocation became a serious problem in Sweden. 60% of the trading volume of the eleven most actively traded Swedish share classes moved to the UK after the announcement in 1986 that the tax rate would double. 30% of all

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[2] The description of the Swedish experience is based on Umlauf (1993) and Campbell and Froot (1993). Sweden levied transaction taxes on stock exchange and stock options, fixed interest securities and the connected derivatives.

Swedish equity trading moved offshore. By 1990, more than 50% of all Swedish trading had moved to London. Foreign investors reacted to the tax by moving their trading offshore while domestic investors reacted by reducing the number of their equity trades.

Even though the tax on fixed-income securities was much lower than that on equities, the impact on the traded volume was much more dramatic. During the first week after the introduction of the tax, the volume of bond trading fell by 85%, even though the tax rate on five-year bonds was only three basis points. The volume of futures trading fell by 98% and the options trading market disappeared. Trading in money market securities, which faced a tax as low as 0.2 basis points, fell by 20%. This reaction was due in large part to the existence of a wide variety of non-taxed substitutes. Once the taxes were eliminated, trading volumes returned and grew substantially in the 1990s.

Singapore

Stamp duty is payable on instruments that give effect to transactions in stocks and shares. Generally, there is no stamp duty payable for derivatives instruments. Stocks are defined in the legislation to include funded debt, which is in turn defined in case law to mean debt with certain features. If a debt instrument is caught by the definition of stock, stamp duty can apply. For share transfers, the duty rate is 0.2% on the amount or value of consideration (and is payable by the buyer).

Share transactions carried out on the Singapore Exchange via the scrip-less settlement system do not attract duty, as there is no instrument of transfer.

Switzerland

A prominent example of a transfer tax outside the EU is Switzerland. A transfer tax (*Umsatzabgabe*) is levied on the transfer of domestic or foreign securities where one of the parties or intermediaries is a Swiss security broker. Swiss brokers include banks and bank-linked financial institutions as defined by Swiss banking law. In addition, companies that own taxable securities of a book value in excess of CHF 10 million qualify as security brokers.

A broker who acts as a party or intermediary in the transaction must pay one half of the transfer tax for himself and another half on behalf of each party who is not a broker. If the broker merely acts as an intermediary, he is only required to pay one half of the transfer tax on behalf of each party who is not a broker. If a Swiss security broker deals at a foreign stock exchange in securities that are subject to Swiss transfer tax, the part of the tax allocated to the other party to the transaction is not levied.

The Swiss securities dealer is liable for the transfer stamp tax and needs to declare and pay his tax liability generally on a quarterly basis.

The taxable base is equal to the consideration paid; if there is no consideration, the taxable base is the fair market value of the security. The duty is levied at a rate of 0.15% for domestic securities and 0.3% for foreign securities.

Bonds, shares in a company's capital and shares in investment funds are taxable securities. Other securities such as options futures, etc. do not qualify as taxable securities for Swiss transfer tax purposes.

There are numerous exemptions to the Swiss transfer tax.

From an objective point of view, Eurobonds, other bonds denominated in a foreign currency and the trading stock of professional security brokers are exempt. Similarly, certain types of transactions are exempt:

- initial purchase of shares in resident companies, including those purchased through a bank or a holding company (subject to stamp duty upon the issuance);
- the transfer of an option to acquire shares;
- the redemption of securities for cancellation;
- the initial purchase of bonds issued by foreign debtors and shares in foreign companies not denominated in Swiss currency;
- the transfer of foreign money market papers; and
- the transfer through security brokers of foreign bonds whether in Swiss or foreign currency between two foreign parties.

From a subjective point of view, the following parties are exempt:

- foreign states and central banks;
- domestic collective investment schemes;
- foreign collective investment schemes;
- foreign institutions of social security;
- foreign banks and securities dealers; etc.

The revenue of the Swiss transfer tax was CHF 1.9 billion CHF in 2007. This corresponds to 0.37% of GDP.

Taiwan

An example for a country with transactions taxes outside Europe is Taiwan. The securities transaction tax is imposed upon gross sales price of securities transferred and the tax rates are 0.3% for share certificates issued by companies and 0.1% for corporate bonds or any securities offered to the public which have been duly approved by the government. However, trading of corporate bonds and financial bonds issued by Taiwanese issuers or companies are temporarily exempt from STT beginning 1st January 2010. The Taiwanese government argued this "would enliven the bond market and enhance the international competitiveness of Taiwan's enterprises."[3] The legal taxpayer is the seller of the securities and tax is collected by the broker or sales agent or the transferee in cases of direct transactions.

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[3] See http://www.ey.gov.tw/ct.asp?xItem=65822&ctNode=1334&mp=11 for the press release.

Since 1998, Taiwan also levies a stock index futures transaction tax is imposed on both parties to the transaction based on the contracted amount. The current transaction tax is levied per transaction at a rate of not less than 0.01% and not more than 0.06%, based on the value of the futures contract. Revenue from the securities transaction tax and the futures transaction tax was about EUR 2.4 billion in 2009. The major part of this revenue came from the taxation of bonds and stocks (96.5%). The taxation of stock index future shares was 3.5%. In total, this corresponds to 0.8% in terms of GDP.

2. COUNTRIES EXPERIENCES WITH FAT ELEMENTS

Denmark

Denmark introduced in 1990 a duty on wage and salary costs (*Lønsumsafgift*[4]) for businesses engaged in certain activities that are exempted from VAT. The tax base is generally the sum of labour costs and taxable profit[5]. For several sectors, including financial activities, the tax base is defined as labour costs plus a supplement of 90%.

The base for the payroll tax on financial sector is the sector's total labour costs. Included is any kind of wage payment to the employed including supplements regardless whether they are a wage element or granted separately.

The general tax rate is 3.08%. Specific rates apply to various sectors. For financial services, the rate is 5.08% of labour costs plus an additional 4.5% of 90% of labour costs (i.e. an effective rate of 9.13% (5.08+ 90%*4.5%). This rate will be increased to 10.5% but this measure will not be effective before 2013.

There is no indication that the activity in the financial sector has been reduced as a result of the payroll tax.

As regards the financial sector the effective rate of the payroll tax has been relatively stable at a level of approximately 9 per cent since 1990 when the payroll tax was introduced. The effective rate was unchanged at 8.55 per cent until 1996. From 1996 until 2000 the payroll tax was gradually increased to reach an effective rate of 9.13 per cent in 2000, which has been the effective rate from year 2000 until last year. From 2011 the total burden on the financial sector labour costs are at a 10.5 percent rate. The specific rates of the payroll tax are summarised in table 1.

4 Covered by the Law on tax o labour costs (lov om afgift af lønsum mv.).

5 In case of losses, these are deducted from the labour costs. The system is therefore symmetric.

Table 1. Payroll tax rates in the financial sector [1]

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Rate on 100 per cent of wages and salary costs	-	-	-	-	-	-	-	4,66	4,82	4,87	5,08	5,08	5,08	5,08	5,08	5,08	5,08	5,08	5,08	5,08	5,08	10,5
Additional rate on 90 per cent of wages and salary costs	-	-	-	-	-	-	-	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	4,5	-
Rate on 190 per cent of cent of wages and salary costs	4,5	4,5	4,5	4,5	4,5	4,5	4,5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total effective rate	8,55	8,55	8,55	8,55	8,55	8,55	8,55	8,71	8,87	8,92	9,13	9,13	9,13	9,13	9,13	9,13	9,13	9,13	9,13	9,13	9,13	10,5

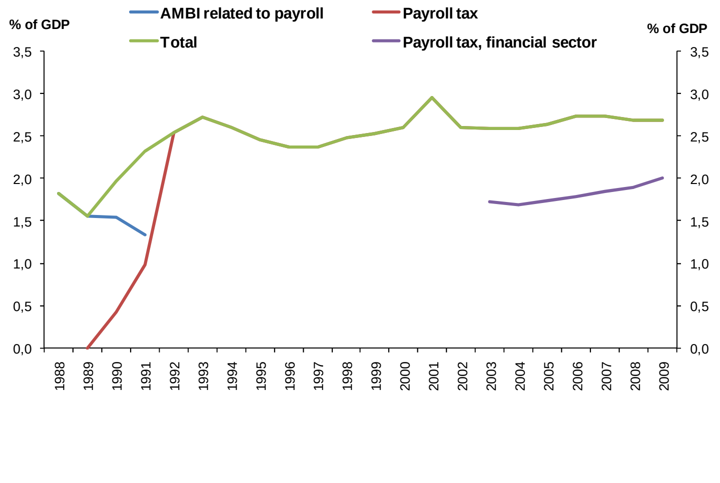
Source: The Danish Ministry of Taxation

Note [1]: Including the AMBI from 1990-1991.

In 2008, the annual revenues amounted to DKK 4,668.7 million (i.e. about EUR 650 million) or 0.26% of GDP. About 70% of this amount would be raised from the financial sector (IMF, 2010). Since the introduction of the payroll tax in 1990 the total tax revenue has been rather constant at the level of approximately 0.25-0.3 per cent of GDP, cf. figure 1. From 1988-1991 a corresponding tax, the AMBI was in effect.

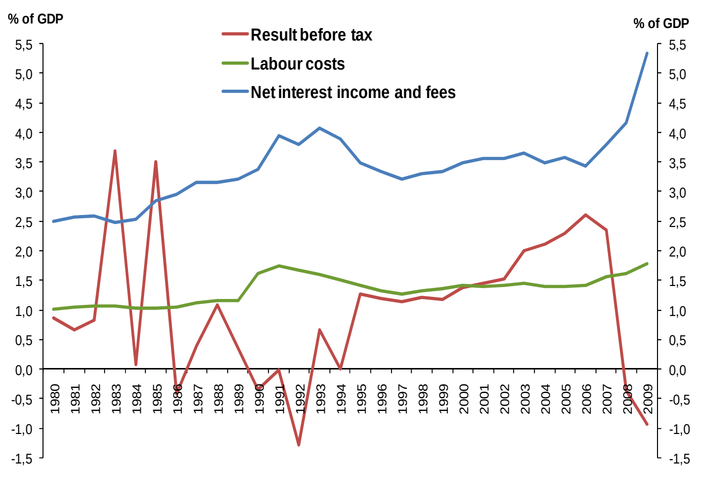
The Danish authorities report that there is no indication that the activity in the financial sector has been reduced as a result of the payroll tax. Measures available for the financial sector activity (pre-tax profits, labour costs as well as net income from interests and fees) do not leave the impression that the payroll tax (or the AMBI) has caused a decrease in financial sector activities cf. figure 2. However, it is not possible to determine what the activity in the financial sector would be in the absence of the payroll tax.

Figure 1. Revenue, Payroll tax and AMBI, all sectors and financial sector, per cent of GDP 1988-2009



Kilde: Danmarks Statistik

Figure 2. Financial sector activity, per cent of GDP 1980-2009



Kilde: Finansrådet og Finanstilsynet.

France

France introduced in 1968 a payroll tax (*taxe sur les salaires*[6]) which is levied on employers who are not liable for VAT or who have not been liable for VAT on at least 90% of their turnover during the previous year. Those include bank and insurance companies. The tax base is defined as gross remunerations, prior to the deduction of employee's national insurance

6 Covered by articles 231 to 231 bis R and 1679, 1679A and 1679 Bis of the General Tax Code.

contribution, including benefits in kind. The measure is therefore not a FAT *per se* but the underlying concept is the same.

For employers who are partly liable to VAT, the payroll tax is due in proportion of the exemption. Remunerations paid by public administrations are exempted as long as this does not create distortions in competition. Remunerations paid to apprentices are fully or partially exempted, depending on the number of employees. A limited number of remunerations are also exempted. Those are mainly paid in the context of training of workers and incentives to hire unemployed. Businesses with a turnover that does not exceed a defined threshold (EUR 80,000 for sales of goods and EUR 32,000 for services) are also exempted.

The tax rate is 4.25%. It is increased to 8.50% for individual annual pay between EUR 7,491 and EUR 14,960 and to 13.60% for individual annual pay above EUR 14,960. There is a reduced rate of 2.95% for overseas territories. The tax is not due if its annual total amount is under EUR 840. If the tax due is between EUR 840 and EUR 1,680, the tax is reduced by an amount representing ¾ of the difference between EUR 1,680 and the tax originally due. Non-profit associations are eligible to a tax credit of EUR 5,890 per year.

The payroll tax is deductible from the corporate income tax or the personal income tax.

In 2008, the annual tax revenues amounted to EUR 11.3 billion. This is about 0.55% of GDP. About 85% of this amount would be levied from financial institutions (IMF, 2010).

Italy

Italy introduced in 1997 a regional tax on productive activities (*Imposta Regionale sulle Attività Produttive – IRAP).*[7] This regional tax is applied to taxpayers engaged in commercial business. The tax base is the value of the net production, which is accounting profit plus most remuneration. Several exemptions apply for unit trusts, pension funds, European Economic Interest Groupings, and some small taxpayers. Deductions are allowed for contributions for labour insurances, expenses related to junior clerks, disable persons and R&D. In addition, there is a EUR 1,850 deduction for each employee (with a maximum of five) to enterprises with income below EUR 400,000 and certain regions apply a EUR 9,200 deduction for each employee. The base is allocated across regions based on the number of workers in each region.

The basic rate is 3.90% and it can be increased by regions up to 1 percentage point. However, since 2008, the rates increased by regions must be multiplied by a coefficient of 0.9176. In 2008, the annual tax revenues amounted to EUR 36 billion or 2.3% of GDP.

China

In China, interest income and capital gain derived from trading of financial instruments should be subject to 5% Business Tax ("BT").

BT is a kind of gross receipt tax similar to Goods and Services Tax ("GST") that is imposed on financial service income. BT covers four categories of financial instruments, i.e. stocks, bonds, forex and others. For the trading of the mentioned four categories of financial instruments, financial institutions are allowed to net off gains and losses arising from trading of one specific category financial instrument within a calendar year for BT calculation purpose. However, for capital gains purposes, the losses and gains from trading of the said four different categories of financial instruments cannot offset against one another.

Interest income, it is generally taxed on gross basis.

The obligation for the payment of BT arises on the day when the taxpayer provides taxable services and receives the business income or obtains the evidence for demanding the business income, unless otherwise specified by the in-charge finance and tax departments under the State Council.

BT should be assessed where the service recipient is located in China, or where the service provider is located in China. Generally speaking, it is the local tax authority governing taxpayers in different locations should collect BT. An entity or individual engaged in provision of services within the territory of China should be a the taxpayer of the BT.

[7] Covered by D. Lg. N446 of 15 December 1997 and L n° 244/2007.

Mexico

As of January 1, 2008, the *Impuesto Empresarial a Tasa Única* (IETU) came into effect in Mexico. This flat rate taxes has as main objective to raise Federal tax revenue.

Taxpayers pay the higher of (i) Mexican IETU, or (ii) Mexican income tax. Although the IETU does not apply specifically to the financial, the Mexican experience with the IETU is worth analysing because it is, in essence, a cash-flow tax.

The IETU taxes business related worldwide receipts from services and from the transfer and lease of goods by Mexican tax residents (individuals and entities) and by non residents with a permanent establishment in Mexico. It excludes most of the exempt organizations under the Mexican income tax law including, among others, authorized charitable organizations and entities with foreign pension fund investments. For the purposes of the IETU, business receipts are those considered as such under Mexican VAT legislation.

Under the IETU, full current deduction of new investments is allowed. New investments made in the last quarter of 2007 may be deducted in a three year period (i.e., 2008 through 2010). Inventories held before January 1, 2008 might be deducted over a 10 year period but with a 60% limitation (this includes Mexican real estate).

Cash payments for taxable concepts are deductible. So it is the non-creditable VAT. Cash receipts and payments for interest and royalties are neither taxable nor deductible. When deductions for one year are higher than taxable receipts, an excess IETU credit is generated that can be credited against any Mexican income tax liability for that same year or carried forward to be applied as a credit against IETU during the next ten years with certain limitations.

A taxpayer can also take a tax credit against the IETU for the following items: (i) income tax paid, (ii) income tax withheld to third parties for items that are deductible for income tax purposes but not for IETU, and (iii) wages and salaries. This is, wages and salaries are not deductible items for the calculation of the IETU taxable base but 17.5% of the wages and salaries can be credited against the calculated tax of the year in order to arrive at a lower payable IETU. This means that some labour intensive entities might not be able to fully credit all the wages and salaries against their payable IETU.

The IETU tax rate is currently 17.5%, although it has progressively increased from 16.5% in 2008 and 17% in 2009.