REGULATION OF BANKS' PERFORMANCE THROUGH TAXES

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ABSTRACT

This research is devoted to the consideration of the theoretical and practical approaches to changing taxation of banks in order to regulate the banking sector. In addition, the article studies the problems existing in the sphere of the regulation through taxes. In reliance on the research results the author has developed relevant proposals and recommendations aimed at achieving efficient and transparent regulation of the banks' performamce through taxes: establishing limits on the interest rate preferences to debts in the current system of the profit tax; proposals to reduce the risks related to the bank charges and paying taxes on financial transactions; application of the VAT to the products not related to the core business of the banks.

Keywords: banks, regulation, taxation, the bank significant for the system, financial taxes, value added tax, bank charges

INTRODUCTION

The financial sector is the primary source of capital inflows which receives interest income through the sale of its financial products. This implies that the procedure of taxation of capital and the processes of creating financial services occur in the financial intermediation environment. Taxation of the financial sector is considered to be one of the most disputable issues for many years, and the first proposals on tax regulation of the financial sector have been made by J.M. Keynes (Keynes, 1936) and J. Tobin (Tobin, 1978). The introduction of taxes on all transactions was one of the most important measures to reduce the scale of speculative transactions (Keynes, 1936). Tobin (1978) recommended the use of tax for all short-term foreign currency operations to curb fluctuations of the exchange rates.

Afterwards, scientists-economists such as J.E.Stiglitz (Stiglitz, 1989), P. B. Spahn (Spahn, 1996), P. Kenen (Kenen, 1996), R. Schmidt (Schmidt, 1999) researched the issues of taxation of financial transactions. The procedure and level of taxation of income from capital (tax rate, tax base), for example, directly affects the form and level of financial intermediation and the value of financial services provided (Boadway and Keen, 2003).

The taxation system should be regarded not only as a "fiscal" system which raises budget revenues, however, also as a means to enhance the banks' stability and to regulate their associated high risk activities. It should be noted that the sustainable functioning of the banking system is crucially important for the whole national economy. This means that the taxation should be directed to the execution of the requirements for the banks' sustainability. In particular, on the basis of the Basel III requirements, a "protective "buffer" of capital has been introduced in banks. The protective "buffer" of capital consists of additional reserves constituting 2,5% against risk weighted assets. Thus, at commercial banks it is planned to create a counter cyclic buffer as a reserve which can combat cycling crisis and introduce new regulatory requirements for the banks' leverage ratio and Liquidity Coverage Ratio.

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The loss and failure of major banks' assets during the financial crisis have significantly affected the financial sector, which in turn has damaged the real sector of the economy. As a result, public sector interventions have been greatly enhanced to restore financial sustainability of systemic financial institutions. This fact justifies that additional measures should be undertaken to reduce anticipated economic and financial costs and associated moral hazards and the problems that may arise from the failure of large financial institutions.

Nevertheless, major banks can challenge such problems as insuring of indirect taxpayers (government-supported entities), which, in turn, may lead to attraction of relatively cheap funds which are not so significant in terms of long-run strategy. However, it enhances their competitiveness and strengthens their domination (Chaudhry et al, 2015).

In response to the crisis, Basel Committee on Banking Supervision has implemented reforms aimed at improving the stability of banks and the banking system as a whole. Herewith, some capital requirements which are significant for the overall banking system (G-SIBs) have been established. Much attention is currently being paid to such crucial issues as maintaining the recommended additional capital (FSB, 2011) and the ability of banks to overcome aggregate losses (Mullineux, 2014). From the point of view of many economists, currently banks should be supplemented by a fiscal taxation set out in the ongoing regulatory reform and fostering a balance between regulation and taxation. In this regard it is recommended to mention the concept proposed by A. Smith. According to it, adequate taxation systems should comply with the principles of equity or fairness, convenience, accuracy and efficiency of taxation (Smith 1776).

It should be noted that taxation represents a kind of macroprudential regulation of the banks. In this regard it is necessary to introduce taxes to ensure covering the losses from public funds if the financial system fails to cover the systemic risk generated by the banks.

From the point of view of Chaudhry et al (2015), abolishment of application of tax preferences for interest on debts in the current tax system is desirable as this existing taxation legislation promotes excessive debt commitment and repayment of debt to equity, which is contrary to the requirements for additional capital enhancement to ensure bank safety. In addition, along with the liquidity coverage ratio recommended by Basel III, double taxation risk, and the tax on financial transactions (FTT) is considered to be inefficient in the economy, leading to the decrease in the market supply and liquidity, and raising the capital value and volatility for consumers. Cancellation of financial services exemption from the VAT can raise the efficiency of financial services. In Great Britain bank charges have been primarily used to hinder short-term wholesale funding of the banks, however the Basel III requires liquidity coverage ratio (LCR) and net sustainability financial ratio (NSFR) to ensure further revenue growth (HMTreasury, 2010).

Section 2 of the article is devoted to the consideration of the issues with regulating taxation, section 3 discusses the taxation of the banking sector, section 4 provides guidance on taxation regulation in the banking sector and section 5 provides scientifically based conclusions.

Regulation through Taxes

Ensuring stability and development of the banking system is implemented under the general influence of forms and methods of public administration, with particular emphasis on taxation instruments. In practice of developed countries, taxation of banks is characterized by the following methods of regulation: comprehensive use of wide-ranging tax concessions (creating reserve funds, deductions to cover losses, etc.); providing discounts on the total amount of gross income, all costs associated with its acquisition, exemptions from paying indirect taxes (VAT, etc.) related to banking operations; exemption from the partial or complete income tax and income tax on interest on debts of legal entities and natural persons (Starodubtseva, 2007). The problems existing in the regulation of the financial sector through taxation in mitigating the causes and consequences of the financial crisis have been identified. According to the opinion of Keynes (Keynes, 1936), in addition to the fiscal functions of taxes, they have functions of regulating, stimulating, and controlling revenue, and these taxation functions are driven by the need to use it as a means of regulating the economy and ensuring sustainable economic growth. During the financial crisis, the lack of regulation and oversight over structural risk and, as a result, a strong impact on public finances, has caused great interest in the regulation of the financial sector through taxation. The following two key measures have been undertaken to indemnify for the financial sector losses in the developed countries: the introduction of appropriate charges for certain types of financial institutions (in particular, the USA, Sweden and Germany); imposing additional taxes on bonuses paid to the financial sector (in particular UK, Italy, France).

The IMF (IMF 2010) recommends that the banking sector can be subject to additional taxes, high levels of crisis-related losses, and excessive risks and systemic risk (“too big to fail” problem), budgetary expenditures for supporting government-funded key financial banks) as the main reason for mitigating the external negative effects. The European Commission’s report on the taxation of the financial sector (EC, 2010) contains three arguments that are significant in taxation. Taxation is considered to be an important tool in the regulation that is used to reduce the risks associated with the financial sector. Second, as a revenue source, banks can make a fair contribution to public finances as taxpayers, and, thirdly, banks can be considered as the source of funding to solve financial problems of banks.

First of all, the corporate income tax is considered to be an important tool for the regulation of banks. From the point of view of King and Fullerton (1983), relationships between corporate and individual income tax are crucial in determining the efficient impact of taxation.

With the aim of imposing corporate income tax, interest on debt obligations is included in the cost of general provisions and reduces the taxable base, however, dividends are not deductible and are subject to taxation. The lack of capitalization, which reflects the excess of debt relation to private equity, is referred to the differentiation in the rules for determining the taxable base for private and borrowed funds. The use of the regulations against inadequacy of the capital implies limitations on discounts on these interest rates, and in some cases their re-classification into dividends. So-called thin capitalization rules are applied to other methods that limit the interest rate cuts for corporate income taxation in international practice, including the official and private equity ratios, including the use of interest rate bargains (restrictions on net interest) and interest rate constraints.

With the aim of imposing taxes on the net interest expenditures various countries apply different mechanisms. For example, in Japan, according to the general rule, the share of debt in corporation’s equity capital exceeds three times, and the interest on debt to a foreign subsidiary is not deducted from calculation of corporate income tax[i]. According to the results of the empirical analysis carried out by Buettner et al (2012), Blouin et al (2014) as well as Mooij and Hebous (2017), these rules are more efficient in responding to the debt reduction and tax differentiation and, moreover, as a measure of the tight debt. Table 1 of the annex represents an overview of the measures used to combat capital inadequacy throughout the world.

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[i] 2006 Tax Reform on Thin Capitalization Rule. Gets Vol. 30. PWC, June 2006. P.1.

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Literary sources on economics provide two possible solutions to avoid excessive borrowing: a general profit tax imposed on business entities which does not assume any preferences on debt interest (Comprehensive Business Income Tax, CBIT) and the preferences applied only in terms of debts. This method is proposed by Fiscal Studies Capital Taxes Group institute (1991) and Deveraux and Freeman (1991), so-called Allowance for Corporate Equity-ACE)[ii]. In the opinion of Panteghini et al (2012), ACE make an impact on the capital structure and can reduce structural risks due to the decrease of the default risk. Thus, certain peculiarities inherent to the ACE can be mentioned: firstly, maintains a neutral position between debt and equity financing, thereby eliminating the provisions against capital inadequately; secondly, it has a neutral character towards the issue of marginal investments, i.e. there is a discount on interest and return on the standard level of capital, and the yield received from capital is not taxable. Thus, this reflects the tax on the economic rent and is not charged for returnable projects that correspond to the capital value. Third, it eliminates investment misbalances caused by differences between economic amortization and amortization for tax purposes. In particular, the accelerated amortization increase for taxation purposes will reduce the book value of assets in tax calculations and, at the same time reduce the ACE. Table 1 of the annex presents an overview of the main aspects of the ACE throughout the world.

Approaches to the Taxation of Banks

In order to avoid the collapse of the financial sector during the global financial crisis, the recovery of some major banks due to the large financial injections resulted in the increase of fiscal costs (Honohan & Klingebiel, 2003).

During 2008-2009, government funding was one of the key “expenditure items” constituting 25 percent of average GDP in the economies of G-20 countries taking into account government pledges, guarantees and other commitments. Resources allocated directly to banks constitute about 6,2% of the GDP (IMF, 2010). This, in addition to the taxes levied on the banking sector, provides additional tax incentives and illustrates that the financial crisis can contribute to the overall revenue of the financial sector, along with covering budgetary funds for direct support for a large number of financial, economic and social expenditures.

It is assumed that the revenue incoming from financial taxes should be included in the structure of the aggregate income, even though they should not be equal to the total amount of losses, however, should ensure that the fiscal sector is ensured against excessive risky activities[iii].

Scientific literary sources suggest that taxation of banks is subject to different tax regimes which can be classified into two types: income-oriented taxation and adjustment taxation. In this regard we are going to consider the most widely-used types of the income-oriented taxation[iv]. First, its is the tax on financial activities levied on the bank profit or rent payments (FAT). As Shaviro (2012) proposes, it is one of the possible options for all excessive profit taxes and taxes on wages and can replace the VAT as an alternative method of taxation of all income and expenses. The next option is the share of financial services which implies the tax on the bank debts. This tax is recommended for penalties, but also for the neutralization of

[ii]Refer to IFS Capital Taxes Group (1991) for commentary report and Isaac (1997) for evaluation of the viability of ACE.

[iii] The reason for this is that the adjusting taxes could differ from the average loss, thus it is required to eliminate marginal social damage from certain activities.

[iv] for a further account see Keen (2011) Rethinking the taxation of the financial sector. CESifo Economic Studies 57 (1),1-24.

closed subsidies extended for guaranteeing bank debts. Third, it is the tax on financial transactions (FTT) which is levied from the conventional cost of financial transactions. It is typically considered to be a violating tax, and the main violation is the reduction of social costs in high-frequency trade. Fourth, it is possible to tax bonuses for bank employees. Such kind of tax was temporarily introduced in the Great Britain and France[v], and in Italy the rate of this tax accounts for 10%.

The key arguments in support of the additional taxation of the financial sector include helping to recover from financial crisis, reducing financial sector stability, compensating exemptions from VAT, new sources of revenue and fiscal targets PWC (2013a). The main forms of taxation in the financial sector are the tax on financial transactions (FTT), the tax on financial activity (FAT) and bank charges.

Tax on financial transactions (FTT)

Proceeding from the types of financial transactions, various type of taxes can be differentiated: a tax on the transactions with securities; a tax on foreign exchange transactions (Tobin tax); a tax on bank transactions; state duties; a tax on capital (a tax imposed on the capital gains) (Matheson, 2011). Keynes (1936) believes that the issues related to the financial transactions have become more crucial and urgent after the financial crisis. In his opinion, the development of liquidity financial markets enables entrepreneurs to raise their capital and diversify risks. This, in turn, promotes the ability of the society to take on commitments on large-scale investment projects. However, the focus is made on attracting short-term projects, not fundamental ones. In addition, profit from short-term capital will depend on the future price quotations, i.e. speculations.

Supporters of introducing taxes suppose that taxes have a high potential. In terms of the economics, the increase in transaction costs with financial assets reduces the amount of speculative and technical sales that increase the financial market volatility and bubble sensitivity. It is important to pay a particular attention to these situations, as they can destabilize the financial sector and can be one of the causes of financial crises. From the point of view of Stiglitz (1989), the share of the trade which lacks tax information (noise trading) should be reduced, which will enhance the efficiency of the information on the tax market[vi]. Edwards (1993) supposes, that tax cuts reduce the share of trades, which in turn does not give an opportunity to represent all open information through the markets. In addition, taking into account barriers and restrictions to the trade taxes reduce liquidity, thereby slowing down the improvement of the incorrect assessment[vii]. Empirical analysis has shown that taxes reduced the trade volume. Davila (2014), proposes a model of competitive financial markets for optimal taxation of financial transactions (i.e. maximizing the welfare). He considers the optimal tax rate to be positive, as a reduction in non-core trade leads to greater benefits than the reduction in the basic sales volume[viii]. Lendvai, Raciborski ва Vogel (2014) propose the use of the general equilibrium model to assess the effect of tax on transaction. Theoretical studies are relatively inaccurate, since their results are based on estimates of noise traders,

[v] The justification for the imposition of the temporary taxes in the UK and France was partially macroprudential: it was argued that taxes on bonuses would incentivise firm managers to keep capital within the firm instead of distributing it to employees. This would be unlikely to apply for a permanent tax, though.

[vi] See also Tobin (1978), Summers and Summers (1989).

[vii] See also Ross (1989).

[viii] Coelho (2014), however, criticizes the paper on the grounds that only trader welfare is taken into consideration, disregarding the welfare of non-market participants, and that the analysis is only about the corrective features of taxation, disregarding other welfare aspects such as addressing the VAT exemption of the financial sector or the taxation of economic rents.

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asymmetry of information, and the functioning and composition of financial markets. In the opinion of Meyer, Wagener, and Weinhardt (2015), the introduction of the tax rate of 20% can lead to the reduction to 20%. Obviously, introduction of this tax can lead to the reduction of the amount of speculative transactions and increase of revenues. The European Commission has considered two different scenarios on determining a taxable base. The first scenario implies the taxation of trading with stocks, bonds, derivatives and instruments of over-the-counter market. The second scenario only transactions with stocks and bonds are subject to taxation.

Taking into consideration the aims presented beow, the European Comission has recommended taxation of financial transactions for the EU. First, the necessity to impose taxes on financial transactions has arisen due to the internal approach, aimed at maintaining competitiveness of the market. Second, it is adding fair and significant contribution of the financial sector to the public finance. And the last one is development of measures to prevent possible financial crisis in future EC (2015). Table 3 in the annex provides overview of the taxation of financial transactions with securities.

However, in the opinion of Antoshkina (2013), the implementation of the taxation of financial transactions with securities cannot be considered the measure aimed at overcoming possible financial crisis, because one of the main reasons for the financial crisis emergence is problems with mortgage loans, in particular, their insufficient collateral.

In addition, the governments of Germany and France, which are the main supporters of the introduction of this tax on EU countries, have expressed the opinions opposite to the UK and Sweden. Great Britain actively supported the introduction of the tax on the financial activity which actually can bring less tax receipts than the tax on financial transactions. As Umlauf (1993) assumes, in Sweden the 1% tax on stocks introduced in 1984 reduced the sales volumes significantly and as a result, caused tax evasion. According to the preliminary data, the market volume and liquidity have declined in France and Italy[ix].

In addition to the opportunity of using the tax on financial transactions, there is the issue of admitting priority of the place of residence or place of issue of securities. In accordance with the principle of residence, the taxation of financial institutions located on the tax on financial transactions territory is subject to taxation. In the opinion of critical thinkers, the introduction and wide implementation of the tax on financial transactions can negatively affect the monetary policy and REPO market.

Value Added Tax (VAT)

According to the data of the KPMG, currently the VAT is appied in over 150 countries and is considerred to be widely-spread tax[x]. The VAT is an indirect tax levied on the added value created at each stage of production. In various countries Value Added Tax is considered to be a one of the stable and reliable sources of government tax revenue, while revenues from direct taxes have a negative trend. In addition, in the framework of fiscal policy during a downturn in the economy, the governments of many countries reduce the rates of direct taxes, and at the same time increase the rates of indirect taxes, because they are neutral to production; the burden of payment is shifted to the final user, which is the main reason for the stability of income from indirect taxes. Therefore, during periods of recession and economic

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[ix] http://marketsmedia.com/italian-french-trading-volumes-hit-ftt/dated April 23, 2014 and http://www.ftseglobalmarkets.com/news/ftt-drags-down-italianstock-trading-volumes.html dated April 23, 2014.

[x] https://tax.kpmg.us/services/indirect-tax/value-added-tax.html·

growth, it is easier to ensure stable budget revenues from indirect taxes, among which VAT takes the leading place in accumulating budget funds (Kononchuk, 2018).

Imposing the VAT in financial service is considered to be an urgent issue for the public finance. Having analyzed economic literary sources it is possible to generalize two main questions (See McKenzie ва Firth (2011) and Poddar (2003): «should financial services be taxed?» and if yes, «in what way should they be taxed?» Nevertheless, the research did not have clear conclusions on these two questions, as well as there were no precise answers to all the questions. However, in many countries, financial services are exempted from the VAT because of the difficulties in calculating the financial value and there is no clear way of taxing financial services (López-Laborda ва Peña, 2018).

The issue of including intermediary services in the taxable base of the VAT has been considered by many scientists-economists (Grubert and Krever, 2012; Lockwood, 2014). For example, Grubert and Mackie (2000) believe that there is no use to introduce financial services in the taxable base as these services don't have a function of profitability for consumers. However, Edgar (2001) proposes to tax financial services as they are assessed as consumption. Some authors share this point of view and add value to the provision of financial services and the use of real resources (Hoffman, Poddar, and Whalley, 1987; Barham, Poddar ва Whalley, 1987). Huizinga (2002) believes, the net taxable margin is uncertain because it is difficult to calculate the amount of cash and risk premium for each transaction. From the point of view of Goncharenko (2004), most of the tariffs for banking services are not based on concatenated value, and the level of tariffs for banking transactions makes an impact on various factors, such as credit risk, interest rate risk and currency risks (including currency risk exposures).

It should be noted that the financial sector entities, including banks, are considered to be one of the most complicated and controversial issues in the taxation of financial products and services to the VAT. Therefore, in many countries, exemption from VAT on financial products and services is a widespread practice, which means that consumers are not taxed, but the cost of the related costs is not restored.

Moreover, exemption of financial services from the VAT will result in multiple disbalances. Firstly, financial institutions cannot deduct all VAT on all non-derivative transactions, which can be included in the cost of financial services, which means, that final tax burden falls on the consumer. Therefore, business entities using financial services are paying more. This fact leads to the excessive taxation of large enterprise (Avi-Yonah, 2009), however, households are sometimes not taxed at all[xi].

Secondly, non-refundable receipts create incentives for integration to avoid the VAT[xii]. In addition, imposing indirect taxes on the financial services does not make any impact on the volume of the financial sector. López-Laborda and Peña (2017a). According to the data presented by the OECD (2014), in 2006 in Spain insurance and financial services totaled 25 192 million Euro and on the basis of calculations the amount of the VAT paid (based on the current 16% tax rate in 2006) could constitute approximately 4 031 million Euro in 2006. In Spain, the VAT revenues in 2006 amounted to 2 455 million Euro while the additional surplus of the VAT levies accounted for 0,1% of the national GDP. In the EU, financial

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[xi] The issues reated to the VAT are considered to be unsolved. Some scientists believe that the reduction of the VAT rate in order to decrease prices for consumers woud never be implemented (European Commission, 2003; Benedek et al., 2015).

[xii] According to the opinion of some economists, due to the fact that the share of wages and external resources is relativey high, the incentives for the vertical integration are not so important.

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services are exempted from the VAT and are not subject to the VAT on financial services provided by banks, and VAT on revenues incurred is not restored. However, except for some paid services, deposit box payments, financial advisory services and exported financial services are taxed at zero rate. In the opinion of López-Laborda ва Peña (2018), although many methods have been developed for imposing the VAT over the past decade, no adequate solution has been found yet. Foe instance, they have proposed a new method for taxation which is called “mobile-ratio” method. This method is used to calculate values added of the financial companies. Each transaction is subject to the VAT under a determined rate[xiii]. Thus this method is considered to be transaction-based method.

Consequences of exempting financial services from the VAT

Supposing, there are no reasonable arguments regarding taxation of B2B transactions. The clear consensus is that these transactions should not be taxed, and this can be achieved in two ways: full taxation regime or zero rate applied for B2B transactions. Both these two methods are equal for B2B transactions. Economists express different opinions regarding taxation of B2C transactions (Baydury ва Yilmaz, 2017). Mirrlees (2011) supposes, exempting financial services from the VAT is contrary to the principle of taxation which breaks the continuity of the chain. However, this definitely contradicts the principle of taxation and makes the VAT a direct tax on production. The exemption from the VAT is illustrated on the example of performance of two economic entities: a legal entity which is fully exempted from the VAT and a legal entity which pays the VAT at the rate of 20%. See Table 1.

Table 1. Financial indicators of the companies being in various conditions in terms of the VAT payment, in monetary units

	Indicators	Exempted from the VAT payment	VAT is imposed at 20% rate
1	Net proceeds from sales	1000	1000
2	VAT on the sales	-	200
3	Expenses on production (VAT excluded)	472	472
4	Purchase cost of the production (VAT excluded)	200	200
5	VAT leading to the expenses	40	-
6	Amount of the VAT deductible	-	40
7	Taxable profit (1 row–3 row-4 row- 5 row)	288	328
8	Profit tax (7 row x20/100)*	57,6	65,6
9	Net profit (7 row-8 row)	230,4	262,4
10	Profitability (9 row/1 row x 100)	23	26,2
11	Tax burden (8 row – 6 row)/1 row x 100)	5,8	2,6

Source: developed by the author on the basis of conventional indicators

According to the data provided in Table 1, taxpayers exempted from paying the VAT, have less net profit than those who pay the VAT, and under other equal conditions the tax burden is higher than net revenues. Perhaps the biggest imbalance is to provide vertical integration in order to reduce non-deductible VAT for financial organizations is to encourage financial institutions to make their financial contributions. In addition to the discrimination, the fact that foreign deliverers can become conglomerates in terms of the vertical integration, can cause the fact of being “too big to fail” because expenditures of financial institutions in different countries of the EU are different, and exemption from taxes creates other

[xiii] See considerations of the tax rates applied to the services of financial transactions: Lockwood and Yerushalmi (2017).

disproportions, which implies higher costs for financial institutions and reducing their competitiveness. From the point of view of Baydury ва Yilmaz (2017), exemption of the banking financial services from the VAT and taxation of the banking lending services in a consequence can ensure sufficient provision for banks, consumption of financial services, as well as enhancing welfare in future. Banks combine labor and taxable savings to provide financial services, but they can partially replenish their full VAT on purchase costs. The part of the VAT which has remained uncovered is added to the cost of financial services rendered to the households and firms. Herewith, it should be taken into consideration that large companies usually use other convenient financing instruments, in particular, possibilities of attracting capital[xiv]. This justifies the fact that raising expenditures on financing, reducing performance indicators occurred due to the exemption from taxation can create additional obstacles for companies to enter the markets.

Eliminating exemptions from taxation, opportunity for paying taxes at the rate of 20% for banking financial ervices by consumers (according to the legislation of the United Kingdom) can cause reduction of deductibe expenditures on credited VAT by banks. In addition, this measure will raise the revenue of the state budget. In this regard, it is possible to enhance the efficiency as unnecessary additional financial services will not be offered to consumers.

Bank charges

Due to the government expenditures made during the financial crisis, bank charge introduced in several countries, such as Germany, France, Sweden and Great Britain were forcedly involved in financing anti-crisis measures (OECD, 2013). The essence of these charges have significantly varied between these countries. For example, in Germany and Sweden payments were made due to the bank liabilities (derivatives). In Austria payments were implemented from the fixed assets and derivatives, and in France from the assets weighted to risk. Moreover, in some countries, including the Netherlands, Belgium and the UK, guaranteed liabilities were excluded from the chargeable base, while in Finland, Cyprus and Hungary these charges were levied. In addition, in Germany there was a minimal charge (fee) which was not inked to the banks' financial performance.

Table 2. Receipts on the income tax and national insurance contributions, corporate tax and receipt of the bank charges by the banking sector in Great Britan (billion £)

Years	Income tax and national insurance contribution (PAYE)	Corporate tax	Bank charges
2011-2012	17,6	1,3	1,6
2012-2013	17,8	2,2	1,6
2013-2014	17,6	1,6	2,2
2014-2015	17,9	2,3	2,7
2015-2016	17,8	3,2	3,4
2016-2017	18,4	4,8	3,0
2017-2018	19,1	4,9	2,8

Source: HM Revenue & Customs, 2018.

The bank charges were considered to be the contribution made by the banks to ensure banking sustainability, to raise liquidity and to eliminate the risks which may occur in the financial sector and economy as a whole (HM Treasury, 2014). Currently bank charges have become the ource of revenue. See Table 2.

xiv Denis and Mihov (2003) on bond issue and firms size and Houston and James (1996) and Johnson (1997) on bank loans concentrating among small firms in the U.S.

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Claudia et al (2016) believe, that the amount of proceeds from charges is not adequately high, and that only large commercial banks pay these charges (77% of German banks are exempted from these charges), while reduction of lending in banks causes the increase of the deposit interest rates. In the opinion of Diemer (2017), bank charges on the assets weighted to risk are considered to be more efficient in ensuring reasonable performance of banks. According to the new procedure introduced in the EU, determining a relevant amount of the bank charges is closely connected with the volume of the bank capital and type of risks. (Diemer,2017). In general, the European bank charges are applied to the banks' obligations with the account of risks which can be challenged by the company[xv].

The foreign practice demonstrates various approaches of levying these bank charges. In Germany gross liabilities accounted in the base of the bank charges which are deducted from its equity and deposits of individuals. In the majority of countries (for example, in Austria, Hungary, France, Iceland, Portugal, Slovakia, Slovenia, the Netherlands and the UK) bank charges contribute to the general reserve, however in some countries (for example, Cyprus, Germany, Korea, Romania and Sweden) there is a specific targeted fund created with the aim of solving problems during the crisis.

The American Financial Crisis Responsibility fee has already been introduced in the United States, and its distinctive feature is that unlike Troubled Asset Relief Program (TARP), it can be used to cover direct costs which can occur during inefficient performance of any financial institution. Belgium has three type of banking taxes: the first is paid to the fund for setting specialized problems; the second one is paid to the fund of ensuring financial sustainability and protecting deposits, and the last one is paid to the fund for the specialized fund for life insurance and deposits. Table 2 of the annex illustrates an overview of bank charges of the countries - EU members.

Failure impose bank charges on time by taxation agreements creates a risk of double taxation. In order to avoid this, "avoidance of double taxation" agreement was signed by the governments of Great Britain, Germany and France. However, in 2017, Britain and Germany ceased this "avoidance of double taxation" agreement. In addition, Dimitris et al (2018) noted that after the introduction of the charges, the profitability of banks have declined considerably, i.e. the banks that had to pay charges, lost a significant portion (5,8%) of market capitalization.

In the UK, since January 1, 2015 Treasury has introduced the highest rates for bank charges. Changes of these rates were implemented several times since 2011. The government reduced the corporate income tax rate from 28% to 24%, then to 21%, and since April 2019 this rate will decrease again and constitute 19%. Due to lowering this tax rate, bank charges have been raised to reduce the profitability of the banking sector and to increase revenues from the banking sector. Meanwhile, currently there are still problems exiting with bank charges as they can make an impact on the economic and regulatory aspect of the bank balance. Therefore, the bank charges have been reconsidered in order to settle existing problems and to ensure sustainability and forecasting of future revenues. In compliance with the new mechanism, bank charges are classified into two groups according to the assets and liabilities of the bank balance (Group A and Group B).

[xv] See Article 103 of Directive 2014/59/EU of the European Parliament and of the Council of 15 May.

Table 3. Bank Levy rates from introduction to 31 December 2018

Rate Period	Rate for long term chargeable equity & liabilities (%)	Rate for short term chargeable equity & liabilities (%)
01/01/11 – 28/02/11	0,025	0,050
01/03/11 – 30/04/11	0,050	0,100
01/05/11 – 31/12/11	0,0375	0,075
01/01/12 – 31/12/12	0,044	0,088
01/01/13 – 31/12/13	0,065	0,130
01/01/14 – 31/03/15	0,078	0,156
01/04/15 – 31/12/15	0,105	0,210
01/01/16 – 31/12/16	0,090	0,180
01/01/17 – 31/12/17	0,085	0,170
01/01/18 – 31/12/18	0,080	0,160

Source: HM Revenue & Customs, 2018

Currently, the reduced rate of bank charges is applied to liabilities with the maturity of over one year and non-insured deposits of individuals. See Table 3. In Great Britain this charge is applied to consolidated balance sheet liabilities with the deduction of the 1-st degree capital, secured deposit, sovereign repos and derivatives. Thus, the increase in the bank charges represents the objective for in the banking sector.

It should be noted that there is similiarity between the LCR abd the NSFR recommended by the Basel-III. Due to the reduction of the bank short-term deposits, both, the LCR and the NSFR facilitate the use of more stable source of financing.

Financial activity tax (FAT)

Financial activity tax (FAT) is another tax imposed on the financial sector which is likely to reduce the high risks and generate bank earnings. The FAT is applied to the amount of bonuses and benefits of institutions. The FAT can be considered as an additional risk-enhancing tool. The introduction of this tax is a challenge, for example, to determine a kind of "perimeter" for its application.

The fact that non-financial corporations may also join a financial sector and thus fall into the sphere of influence can encourage other companies operating in the non-financial sector[xvi]. In the category of financial Institutions, the majority of its activities are related to the portfolio investments and investment funds, and basically financial holdings are the establishments rendering services to the registered companies[xvii].

Keen, Krelove ва Norregaard (2017) emphasized that it is impossible to completely solve all problems related to the exemption of the FAT in the form of invoices from the VAT, however, in the absence of any other reasonable solution this proposal can be accepted. The IMF (2010) suggested imposing the FAT on the amount of rewards and profit received by financial institutions[xviii]. It is recommended to determine the amount subject to the FAT from the profit and wages of taxpayers. The FAT model proposed by the IMF experts are distinguished from the taxable base (value and quantitative classification of the taxable object). Herewith, the calculation of the VAT shoud be close to the income subject to taxation (including fully deductibe investments, and deductible interest). In this regard,

[xvi] Shackelford, D. Shaviro, J. Slemrod. Taxation and the Financial Sector.

[xvii] Boadway R., Keen M. Theoretical. Perspectives on the Taxation of Capital Income and Financial. Services. The Taxation of Financial Intermediation. 2003. IMF.

[xviii] John D. Brondolo. Taxing Financial Transactions: an Assessment of Administrative Feasibility. IMF Working Paper August 2011 http://www.imf.org/external/pubs/ft/wp/2011/wp1154.pdf.

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rewards of employees should include all other payments and incentives, including premiums and other incentive payments, as well as indemnities, as well as comprise tax supplements which are not included in the specific fund, but in the overall budget revenue.[xix].

Adding the rewards and profit to the FAT base enables to achieve the various objectives of this tax[xx]. For example, the IMF (2010) experts confirm that all payments included in the FAT tax base are effectively reflected in the VAT and, therefore, may partially cover the risk that the financial sector can challenge. For technical reasons, typically financial services are exempted from the VAT, which implies that taxation is likely to be highly tax-free in the financial sector.

In particular, some countries received significant tax receipts of the VAT imposed in the financial sector (about 12% in Australia, 7% in Mexico, and 6,5% in Canada) (IMF 2010, Annex 5). Moreover, the tax rate should be lower than the current VAT rate, in order to avoid the expansion of disproportions because financial services are normally exempted from the VAT, and there is a high likelihood that the financial sector will not be taxed on other sectors. In many countries, the value added of the financial sector indicates that even a relatively low rate of the FAT can provide significant revenue gains through implementing an efficient method. For example, Buettner and Erbe (2012) analyzed the impact of introducing the FAT in terms of bringing profit and enhancing welfare[xxi]. According to their analysis, the introduction of the FAT at 3% rate, exemption of the financial sector from the VAT (taking into account the VAT rate at 19%) can result in raising the revenue and welfare.

In addition, the IMF (2010) has proposed additional options to the FAT. In their opinion, additional rewards (surplus compensations) of employees of financial organizations are added to the tax bae of the FAT-2. Herewith it is recommended to compare the income of managers in the financial sector with the income of managers in other sectors of the economy in order to solve the main problem by determining the excess premium. According to the opinion of experts, if the FAT is close to the tax on rent, the likelihood of tax burden on consumers will be reduced[xxii].

Moreover, the issue of determining profitability, solving the issue on whether the yield on capital or on assets is needed should be settled in the countries where the FAT is intended to be implemented. According to the IMF, the establishment of the FAT administration is simple, and taxation of employees' rewards is a common task for the tax administration. Definitely there are technical problems to be solved, but most of them are related to the solution of tax administration. However, many countries have introduced this tax and used low rates on additional taxation which resulted in tax avoidance (Claessens and Keen, 2010). In terms of the benefits of financial institutions and taxation of employees' rewards, experts focus their attention on the important and complicated issue, namely, practical capabilities of determining the value added in the financial sector for tax purposes. In many aspects the FAT is close to the VAT by nature, however, unlike the VAT it does not have a direct impact on

[xix] http://europa.eu/rapid/press-release_DOC-12-3_en.htm?locale=en. Treaty establishing the European Stability Mechanism.

[xx] The relevant IMF (2010) report on the alternative options of the FAT by potential taxable base and revenue is provided in Annex 6.

[xxi] Based on the empiric analysis implemented by Buettner and Erbe (2012). According to this analysis if the FAT is introduced at the rate of 3%, it will bring revenue of 1 312 billion Euro. And if this revenue is directed to the reduction of the income tax imposed on wages, the amount of welfare will constitute 1 092 billion Euro.

[xxii] Lipsky John. January 7, 2010. Don't Forget Financial Sector Reform.http://blog-imfdirect.imf.org/2010/01/07/financial-sector-reform/.

the structure of the bank performance, because it is connected not with receipts from the tax services or production turnover, but to the value added. Definitely, a distinctive feature of this tax is that a final burden falls not only on consumers but a certain part falls on banks too. Meanwhile, the implementation of this tax has no direct impact on the bank performance because the FAT as a tax on the economic rent can lead to the reduction of its volume without changing the bank performance.

RECOMMENDATIONS ON REGULATION THROUGH TAXES

As it has been mentioned above, the taxation system should not only be considered as a "fiscal" budget revenue enhancement, but also a tool for improving the stability of banks and their regulation of highly risky activities. It should be noted that the sustainable functioning of the banking system is crucially significant for the whole economy. This means that taxation should be directed to the execution of the requirements to ensure sustainability of banks. In addition, the proceeds coming from taxes imposed on the financial services serve as a deposit insurance fund for small banks. Sometimes in reliance on the principle "Too Big to Fail" for banks, special measures are required to be undertaken for important large banks (SIBs). In order to recover financial stability of major banks, the government's need for additional measures to mitigate major economic and financial costs and associated moral hazards reduce and alleviate the problems that may arise from the improper performance of large financial institutions. In the measures related to taxation (fiscal measures) it is recommended to eliminate tax deductions for the interest expense or to limit the percentages of privileges or to introduce "provisions to ensure capital adequacy". This is due to the fact that current taxation procedure prefers attracting borrowings to capital, and in this way encourages encourages excessive borrowing, which contraverses the rules of capital attraction to secure banks. However, focusing on fixed assets can cause certain difficulties for small savings banks because they should not possess an opportunity to easily issue the shares.

From the point of view of Calomiris (2013), it is necessary to create the regime of decision-making on the basis of international agreements with the account of the competitiveness of universal banks and significance of the transboarder activities. In conclusion it is possible to say that with the account of reducing the FAT recommended by the EU, market iquidity and LCR and NSFR, in addition, in compliance with the Basel III requirements it is recommended to cautiously introduce the FAT in practice.

As a result of exempting financial services from the VAT, in a consequence financing will result in financial expenditures and tax cascade disbalances. Non-reimbursable part of the VAT on rents for financial services is included in the cost of financial services provided to households and firms. It should be noted that many small and medium-size firms basically place their free funds as investments through banks with major financial intermediaries.

Cancellation of exemption from the VAT reduces high pressure on banks and creates equal conditions for other companies (Baydury and Yilmaz, 2017). Poddar and English (1997) offer the method of canceling exemption from the VAT with the account of operational difficulties - Truncated Cash-Flow Method with Tax Calculation Account. In addition, López-Laborda and Peña (2018) even though have developed numerous methods of imposing the VAT on financial services during the past decade, however, each of these methods has become inadequate, and they have proposed a new method of imposing the VAT on financial services - "mobile-ratio" method. The FAT is recommended as an alternative solution because of operational difficulties with the exemption margin-based financial services from the VAT.

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Thus, the FAT which is applied to the gross indicators of the banks' performance is similar to the VAT in its essence in many respects.

In Great Britain the bank charges are considered to be an additional payment which is imposed on the bank's assets and liabilities. They can be used for ensuring banks' sustainability, raising liquidity, as well as eliminating the risks occurred in the financial sector and economy as a whole (HM Treasury, 2014). In this regard, the use of the LCR recommended by the Basel III can lead to the significant revenues. Failure to impose bank charges according to the regular tax agreements can cause the risk of double taxation.

CONCLUSION

The global financial crisis has revealed existing problems with regulating through taxes while eliminating external factors that create a high systemic bank risk. In order to overcome these external influences, the regulation of the banks' performance through taxation has been studied and analyzed in several countries and basing on the research results the requirement how to impose taxes on banks to achieve an efficient and fair regulation has been analyzed. It should be noted that the anti-crisis measures, developed and widely considered, are implemented not in the form of a single concept, but reflects mainly certain elements of taxation of the financial sector, and this in turn does not enable to develop reasonable proposals on whether to apply them in practice or not. In this regard, a particular attention has been paid to regulating the performance of banks through taxes, namely attracting fund through the receipts from taxation, creating guarantee funds by deposits, and spending on financing of the bank supervision authorities which are financed due to the bank charges imposed or taxation of banks and other financial institutions.

With the aim of eliminating application of tax restrictions on debts under the current tax system, introducing restrictions on the limits (regulations to restrict aopplication of concessions on the interest or the rules against "capital inadequacy"), raising efficiency of taxation and reducing disbalances, it is recommended to apply the VAT under general procedure to the paid services or bank products which are not related to the core business. Meanwhile, in order to impose taxes on the banking sector and reduce the risks existing in the banking sector, we would like to emphasize the role of the VAT as the main for formation of the state budget revenue, as well as to encourage taxpayers to make fair and significant contributions to the state budget, which will lead to the solution of many financial problems. Bank charges of the financial taxes, herewith the taxes imposed on the financial transactions and financial activities can serve as the most important tool for preventing negative consequences of the global financial economic crisis as they formulate the basic source of generating public finance. Thus it is required to cautiously implement relevant measures aimed at raising efficiency of the bank charges and the FAT efficiency, reducing the risks related to the payment of taxes, as well as preventing double taxation.

It should be noted, that regulation of the banking sector and tax policy are quite independent from each other, which can be justified by existence of the different tax systems in various countries. In this regard, it is advisable to develop a single approach aimed at ensuring sustainability indicators for the banking sector and expanding investment activities, as well as regulation through taxes in terms of the aggregate tax burden.

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ANNEXTURE

Table 1. Overview of provisions against capital inadequacy in the countries throughout the world

Countries	Availability in the tax legislation	Availability of regulations for banks	Note
Austria	Not available	Available	The minimum level for the capital requirement is determined at 8%. The ratio of the loan capital to equity must be 3:1, and in case of absence of extraordinary situations this indicator should constitute 4:1.
Belgium	Available	Not available	The ratio of the loan capital to the equity constitutes 5:1 in practice, which creates wide opportunities to finance borrowings.
Bulgaria	Not available	Not available	If average ratio of the loan capital to the equity exceeds 3:1, there is applied the regulation against capital inadequacy.
China	Available	Available	The ratio of the loan capital to the equity constitutes 2:1 for non-financial institutions, and 5:1 for banks and other financial institutions.
Czech Republic	Available	Available	The ratio of the loan capital to the equity constitutes 6:1 for banks and insurance companies, and 5:1 for other companies.
South Africa	Not available	Not available	The ratio of the loan capital to the equity constitutes 3:1.
Denmark	Not available	Not available	The ratio of the loan capital to the equity of 4:1 is applied by Denmark companies and branches to supervise debts and loans. In addition, interest ceiling rule and the rule of earnings before interest and tax-EBIT are available. The interest rate limit is based on assets and the deductible interest expense is up to 2,9% of the tax base for assets. According to earnings before interest and tax-EBIT rule, the percentage of interest expense on which the taxable interest and tax deductions is determined up to 80%.
France	Available	Not available	There are three types of restrictions on the tax deductions on interest: limits on interest rates; debt ratios, transfer of additional interest. According to the criteria on limits on interest rates, if the ratio of the loan capital to equity exceeds 1,5:1; and if EBITDA exceeds 25%, interest income is not deducted.
Germany	Not available	Not available	In compliance with the current tax legislation and according to earnings-

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			stripping rules, the limit of deducting net interest has been determined. In reliance on this rule, if EBITDA constitutes up to 30%, net interest is deducted.
Greece	Not available	Not available	In reliance on the rule, if EBITDA constitutes up to 30%, net interest is deducted.
Hungary	Available	Available	The ratio of the loan capital to the equity constitutes 4:1.
Ireland	Not available	Not available	There are no exact rules.
Italy	Not available	Not available	There is no rule for capital inadequacy. However, EBITDA is deducted at the equal amount of 30%.
Latvia	Available	Available	If the ratio of the loan capital to the equity constitutes 4:1, payouts of interest exceeds 1 million Euro and if EBITDA exceeds 30%, is added to the taxable base.
Lithuania	Available	Available	If the ratio of the loan capital to the equity exceeds 4:1, none interest is deducted from the taxable base.
Luxembourg	Available	Available	According to the tax legislation, the ratio of the loan capital to the equity constitutes 85:15. If this ratio is not observed, it is not deducted from the taxable base.
Netherlands	Not available	Not available	However, if the amount of the debt for banks and insurance companies exceeds 92% of the total accounting, discounted interest on debts is restricted.
Poland	Available	Available	On the basis of the EU ATAD Directive from July 12, 2016 (No. 2016/1164, new rules were introduced. Since January 1, 2018 if the amount of financing loan expenditures exceeds 30% from EBITDA, or exceeds 3 million Zloty during a tax year, tax deductions are not supposed.
Portugal	Not available	Not available	According to earnings stripping rules adopted on 2013, tax deductions on interest are determined in the amount of up to 1 million Euro, and EBITDA is fixed within 30%.
Romania	Not available	Not available	Since 2018 earnings stripping rules were changed. According to the newly adopted excessive debt expenditures, subject to deduction, are

			equal to 200 thousand Euros. The discount limit for the overdue interest rate limit is set at 10 percent of the adjusted accounting profit.
Russia	Available	Available	The ratio of the loan capital to the equity constitutes 3:1 for legal entities and 12,5:1 for banks and leasing companies. If the amount of debt exceeds this limit, profit tax is not deducted from the base and excessive interests can be taxed as dividends paid to foreign shareholders.
Slovenia	Available	Not available	The ratio of the loan capital to the equity constitutes 4:1. It is applied to skilled shareholders (except for banks, insurance companies and non-insurance companies), who own at least 25% of the equity of other companies) in relation to the interest rates of loans extended.
Spain	Not available	Not available	According to the earnings stripping rules, established in 2012, EBITDA for interest expeditures is determined at the amount of 30%. 30% limit I not applicable to the net expenditures up to 1 million Euro.
Switzerland	Available	Available	Safe haven rules require minimal capital ratio to each class of assets (for example, it is possible to finance accounts receivable up to 85%, and investments up to 70%). According to this rule, ratio of debt and aggregate assets accounts for 6/7 for financial companies (10/11 in the financial sector).
UK	Not available	Not available	According to the rule, if EBITDA accounts for up to 30%, net interest is deducted (in compliance with the Fixed Ratio Rule) or net interest expenditures are increased in relation to EBITDA throughout the world (Group Ratio Rule).
Ukraine	Available	Available	The ratio of the loan capital to the equity constitutes 3,5:1 for institutions, and 10:1 for banks and leasing companies.
United States	Not available	Not available	According to the rule of regular capital inadequacy, EBITDA is deducted in the amount of 30%.

Notes: Part of this table is adapted from European Commission report of 2011 EC (2011).

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Table 2. Overview of Allowance for Corporate Equity (ACE) around the world

Countries	Period	Base	Rate	Note
Austria	2000-2004	Incremental book value of equity	Average secondary market government bond rate plus 0.8 p.p.	Notional return taxed at a reduced rate of 25% instead of 34%.
Belgium	Since 2006	Until 2017: Full book value of equity. Since 2018: Incremental, base equal to 1/5 of the increase over 5 years.	Average monthly government bond rate of 2 years ago. Rate cap of 6.5%; change limited to 1 p.p. per year. SME rate 0.5 p.p. higher. For income year 2018 the standard ACE-rate is 0.746% for non-SMEs and 1.246% for SMEs	Since 2013 no carry forward of unused allowances, tax on distributed dividends of large firms introduced. Starting from 2018 the allowance for corporate equity (ACE) only applies to the increase of corporate equity compared to the average size of equity in the previous 5 years.
Brazil	Since 1996	Book value of equity; only for distributions (closed companies: also credits to owners)	Rate applicable to long-term loans	Up to the level of the notional return, dividends can be paid as "interest on equity." This is deductible for CIT and subject to the usual tax on interest.
Croatia	1994-2000	Book value of equity	Book value of equity 5% plus industrial goods inflation	
Italy	1997-2003	Incremental book value of equity. 2000: 120% of new equity. 2001: 140%. From 2002: again 100%.	1997-2000: 7%, 2001-2003: 6%	Notional return taxed at a reduced rate of 19 instead of 37% (34% in 2003). Before 2001: 27% minimum average tax rate.
	Since 2012+	Incremental equity (over 2010 base)	2011-2013: 3%;2014: 4%; 2015: 4,5%; 2016: 4,75%; From 2017: average public debt plus risk factor set by Finance Minister.	After 2018, the notional interest rate to be applied to the injections of new equity will be determined each year by the Ministry of Economy and Finance, always within 31st January of the year of reference.
Latvia	2009-2014	Retained earnings of accumulated	Weighted average interest rate	

		since 2008	on loans to nonfinancial enterprises. 5.05% in 2010, 4.37% in 2011.	
Liechtenstein	Since 2011	Modified equity	Based on market developments (currently: 4%).	
Portugal,	Since 2008	Incremental equity of SMEs; from 2014: limited to €2,000,000	2008-2013: 3%; 2014-2016: 5% From 2017: 7%.	
Cyprus	Since 2015	Incremental equity: issued share capital, fully-paid share premium	10-year Cypriot government bond yield, or if higher, yield of country where equity is invested; plus 3 p.p.	
Turkey	Since July 2015	Incremental cash capital	50% of weighted average bank loan interest rate	Not for: firms with high passive income /financial assets; subsidiaries or participations.
Malta,	Since 2018	Share capital, including: share premium, interest-free debt, retained earnings and contribution reserves.	Yield on 20-year government bonds plus 5 p.p.	Limited to 90% of taxable income. Excess can be carried forward

Notes: This table is adapted from Klemm (2018). [+]Italy's draft budget for 2019 proposed abolishing the ACE.

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Table 3. Overview of taxes on transactions with securities by the countries throughout the world

Countries	Taxable base	Rates	Note
Belgium	Tax on the stock exchange transactions	0,09 % or 0,27% or 1,32 %	The tax is applied to transactions with stocks (shares), bonds (except for newly issued securities), as well as capitalized shares of collective investment funds. For bonds (maximum up to 1300 Euro for each transaction) - 0,09 %. For shares and certificates of certain investment funds (maximum up to 1600 Euro for each transaction)-0,27%. For transaction of investment funds (maximum up to 1600 Euro for each transaction). Transactions which are not subject to taxation include transactions of financial institutions (bank, insurance companies, companies for pensions provision and collective investments), as well as transactions carried out by non-residents at the expense of their own funds.
Cyprus	Stamp duty imposed on agreements by the transactions with securities in Cyprus	0,15% or 0,20 %	The tax covers agreements related to the securities issued by Cyprus corporations, as well as agreements related to the sale of these securities. The tax rate accounts for 0,15% for the amount from 5,001 Euro up to 170 000 Euro. If the amount exceeds 170 000 Euro, the tax rate constitutes 0,20 %.
	Securities transfer tax	1,6%	The rate by corporate securities accounts for 1,6 % and since 2013 it is applied for real estate investment funds (Finnish REIT)/transfers of housing companies at the rate of 2%.
Finland	Financial transaction tax (on stocks, CDSand High-frequency Trading transactions	0,3% or 0,01 %	The financial transaction tax has been introduced since August 1, 2012. It covers listed French stocks (agreements by French companies with market capitalization exceeding 1 billion Euro), property securities of companies within their performance, including warrantee certificates of America and Europe at the rate of 0,3%. CDSand High-frequency Trading transactions - 0,01 %. Transcations with securities at the primary stock market and central depositary securities (for financial and prudential management), creating the market, ensuring market liquidity and operations on limiting volatilites in prices for stocks, REPO operations, debts and loans on the securities (basically for financial purposes).

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Greece	Transaction duty on the stocks at the Stock exchange	0,15%	
Ireland	Stamp duty paid on the premiums received from transactions with stocks of Ireland companies and securities for sale (including derivatives)	0,1%	Transactions related to the transfer of stocks with a value less than 1000 Euro, transfers carried out in the framework of corporate restructuring or merger, securities issued by the government or the EU, issuing shares of collective investment funds and their further transfer, sale and purchase are exempted from this duty.
Italy	Financial transaction tax imposed on transactions with shares, derivatives and High-frequency Trading transactions	0,1% or 0,2 % or 0,02%	On transactions by stocks at the Stock Exchange - 0,1%; on transactions with shares at over-the-counter market (OTC) - 0,2 %; derivatives and High-frequency Trading transactions - 0,02%. Transaction with institutional counterparties, transactions for the purpose of creating the market or ensuring liquidity of contracts. On transactions performed by pension funds or establishments for compulsory social security founded in the Euro zone or within the EU.
	Stamp duty on all securities of Malta	2 %	Stocks quoted at the Stock Exchange of Malta, transferring stock by non-residents, securities received or issued according to the collective investment scheme, transfer of stocks between companies inside one group, transfer of domestic securities, as well as if a merger, alienation and restructuring of companies are implemented within a group, are exempted from the duty.
Malaysia	Stamp duty levied on all transactions with stocks and securities	0,3 %	Property transfer between companies interconnected is exempted from the duty.
Poland	Stamp duty on all transactions with derivatives and all types of securities	1 %	Treasury bills and bonds of Poland, bills issued by the Central Bank of Poland, transactions on lending securities, as well as for implementing over-the-counter agreements in case if a counterparty pays the VAT in Poland and is registered as a taxpayer.
Singapore	Stamp duty on the value of transactions with stocks and securities	0,2 %	Rate of the duty. Cost of a stock or a stamp duty on the purchase constitutes 0,2%.
Switzerland	Stamp duty on the transfer of domestic and foreign securities	0,15 % or 0,3 %	If one of the parties acts as a dealer in Switzerland, the rate imposed constitutes 0,15% for domestic securities and 0,3% for foreign securities.

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Great Britain	Stamp duty on the instruments transferring certified stocks and reserve tax on the stamp duty on the stock transfer of the electronic form	0,5% or (1,5 %)	If transfers of stocks are implemented by “deposit warranty schemes” or by “cleaning services”, a reserve tax at the rate of 1,5% is applied to the stamp duty.
India	Tax on transactions with sale and purchase of stocks admitted by the Stock Exchange	0,001%	Is applied to tax bonds, debt obligations, and derivatives. Tax rates are subject to change due to transactions. For example, futures transactions with securities – 0,01%; option transactions with securities - 0,05% .
South Africa	Tax on the securities transfer	0,25%	

Notes: Part of this table is adapted from European Commission report of 2011 EC (2011).

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Table 4. Bank levies in EU member states

Country	Start date	Purpose	Contributes to:	Tax base	Rates	Threshold and exclusion from tax base	Deductible for CIT
Austria	2011	The stability of banking sector, fiscal	1) Special federal funds for the specific purpose of measures regarding the stability of the financial market (2012-2017) 2)Treasury	Unconsolidated balance sheet total (liabilities)	0,09% 0,11% (> € 20 bn)	€ 1 bn allowance; Nominal capital and reserves, assured bank deposits and certain liabilities from the liquidity requirements of the Banking Act	Yes
Belgium	2012	The stability of banking sector	Resolution Fund, Treasury	Liabilities	0,035%	Nominal capital, assured bank deposit	Yes
Cyprus	2011	The stability of banking sector, fiscal	Special Fund for the stability of the banking sector, Treasury	All Deposits excluding inter bank deposits	0,15%	From 2013 Tier 1 Capital is excluded from taxable base	No
Finland	2013	Fiscal	Treasury	Total amount of riskweighted assets	0,125%		No
France	2011	Fiscal	Treasury	Total amount of riskweighted assets	0,539% (reduction to 0,141% since 2019)	€ 500 million of minimal own funds requirement	Yes
Germany	2011	The stability of banking sector	Restructuring Fund	Balance sheet (liabilities) Derivatives	0,02%0,06% 0,0003%	€ 300 million Customer deposits and other liabilities toward nonbanks. Equity capital	No
Hungary	2010	Fiscal	Treasury	Total assets	0,53%>50 bn HUF (0,31% since 2016)	Interbank loans, loans for financial institutions	Yes

					0,15%<50 bn HUF		
Latvia	2011	Fiscal	Treasury	Liabilities	0,072%	Nominal capital, assured bank deposit	Yes
Netherlands	2012	Fiscal	Treasury	The standalone balance sheet or, if applicable, the worldwide consolidated balance sheet	0,022% 0,044%	€ 20 bn allowance Regulatory capital, deposits covered by deposit guarantee schemes, insurance business related liabilities	No
Poland	2016	Fiscal	Treasury	Total assets	0,44%	PLN 4 bn (banks) PLN 2 bn (insurance companies)	No
Portugal	2011	Fiscal	Treasury	Balance sheet (liabilities) Derivatives	0,01%0,085% 0,001%0,0003%	Nominal capital, assured bank deposit, derivatives for securing	No
Slovakia	2012	The stability of banking sector	Stability fund	Balance sheet (liabilities)	0,2% (0,4% (2012-2014)	Capital, subordinated debt securities, intragroup liabilities	Yes
Sweden	2009	The stability of banking sector	Stability fund	Sum of the liabilities and provisions	0,036%	Capital, subordinated debt securities, intragroup liabilities	Yes
United Kingdom	2011	Fiscal	Treasury	Relevant liabilities	0,21% short term liabilities 0,105% long term liabilities (reduction to 0,1% and 0,05% in 2021)	GBP 20 bn Tier 1 capital, “protected” deposits	No

Notes: This table is adapted from Twarowska (2016).

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