COMPLEMENT

EXPLANATORY NOTE ON THE MONTE DEI PASCHI CASE COMPLEMENT TO THE EU TAX OBSERVATORY REPORT N°2

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Background

The bank Monte dei Paschi di Siena is a complex case to analyse for two main reasons. First, throughout the sample, the bank Monte dei Paschi di Siena makes large losses and very small profits (see **Figure 1**). Second, it went through major restructurations in 2017 after it was struggling to avoid a collapse and was eventually bailed out by the Italian government.

In our report, the methodology used to analyse the presence of banks in tax havens relies heavily only on positive profits that we extract from the raw publicly available data. While this methodology is well adapted to the majority of banks in our sample, for Monte dei Paschi it can raise some issues due to the small amount of positive profits that can easily result in large percentages and to the unusual operations that were implemented in 2017.

For these reasons, figures in our report related to Monte dei Paschi should be interpreted with caution and it is best to consider them in the light of the results presented in this note showing how accounting for the 2017 operations undergone by Monte dei Paschi can affect the results.

It is to be underlined that these operations, while having a large effect in the specific case of Monte dei Paschi, have no effect on the overall findings of the report as this is one of the smallest banks in our sample. The conclusions of the report remain unchanged namely that:

- there is no trend in the presence of banks in tax havens from 2014 to 2020,
- on average EUR 20 billion profit booked in tax havens, corresponding to 14% of overall positive profits on average,
- a 15% minimum tax rate imposed on the banks in our sample is estimated to bring between EUR 3-5 billion of additional revenue.

Raw data and data adjustment

Following the release of the second report "Have European banks left tax havens? Evidence from country-by-country data" on September 6 2021, we were contacted by the personnel of Monte dei Paschi di Siena concerning the interpretation of the figures of the percentage of positive profits booked in tax havens, reported in Figure 3.3.2 in page 21 of our report.

The high percentage reported for Monte dei Paschi (over 50%) shown in our report is driven by one observation in particular, profits booked in Luxembourg in 2018 (EUR 482 m). The staff of Monte dei Paschi brought to our attention a crucial detail concerning this figure, namely that it should be considered in conjunction with the losses registered in Luxembourg over the previous year (EUR -470 m).

The staff of Monte dei Paschi explained that both the negative and positive figures belong to the operation related to the restructuring operated in the fiscal year 2017, but due to accounting complications they were registered in two separate years. It follows that considering the two transactions at separate years can potentially provide a misleading picture of the bank's activities. When the 2018 figures are attributed to 2017 the balance between the two results in profit EUR 11.8 m reported in Luxembourg. **Figure 2** and **3** below show how taking this into account affects the overall profits for Luxembourg for the years 2017 and 2018.

Computations of the presence in tax havens

As Monte dei Paschi generally makes large losses and has relatively small profits, the figures for Luxembourg have a large influence on the overall positive profits booked by Monte dei Paschi, as presented in **Figure 4** and **5**. When we calculate the percentage of overall positive profits booked in tax havens between 2014 and 2020, our denominator is the sum of the overall positive profits recorded by the bank across the years while the numerator consist of the sum of positive profits booked in those countries we identify as tax havens.

In the case of Monte dei Paschi, applying this methodology on the raw data results in over 50% of positive profits booked in tax havens, while using the adjusted attribution of profits booked in Luxembourg changes the figures significantly, bringing the percentage down to 5.7%.

Computations of the tax deficit

As for the figures concerning presence in tax havens, we present the results for the tax deficit considering the adjusted figures for Luxembourg. These would only affect the calculations of the tax deficit for Monte dei Paschi in tax havens for the year 2018, when the large amount of profits was recorded in Luxembourg. The computations for domestic and non-haven countries remain unaffected.

Overall, taking into account this adjustment would reduce the 2018 tax deficit of Monte dei Paschi by EUR 69.6 m, bringing the value reported for 2018 in Table E.1 in page 51 of our report to zero. This would affect the results for Italy reported in Table 4.2.3, reducing the amount reported for 2018 by the same figure bringing it from EUR 268 m to EUR 198 m.

The effect of these changes on Table 4.2.5 would bring the percentage of the tax deficit for 2018 to 0% and the one for 2017 to 95%.

Effect on overall results

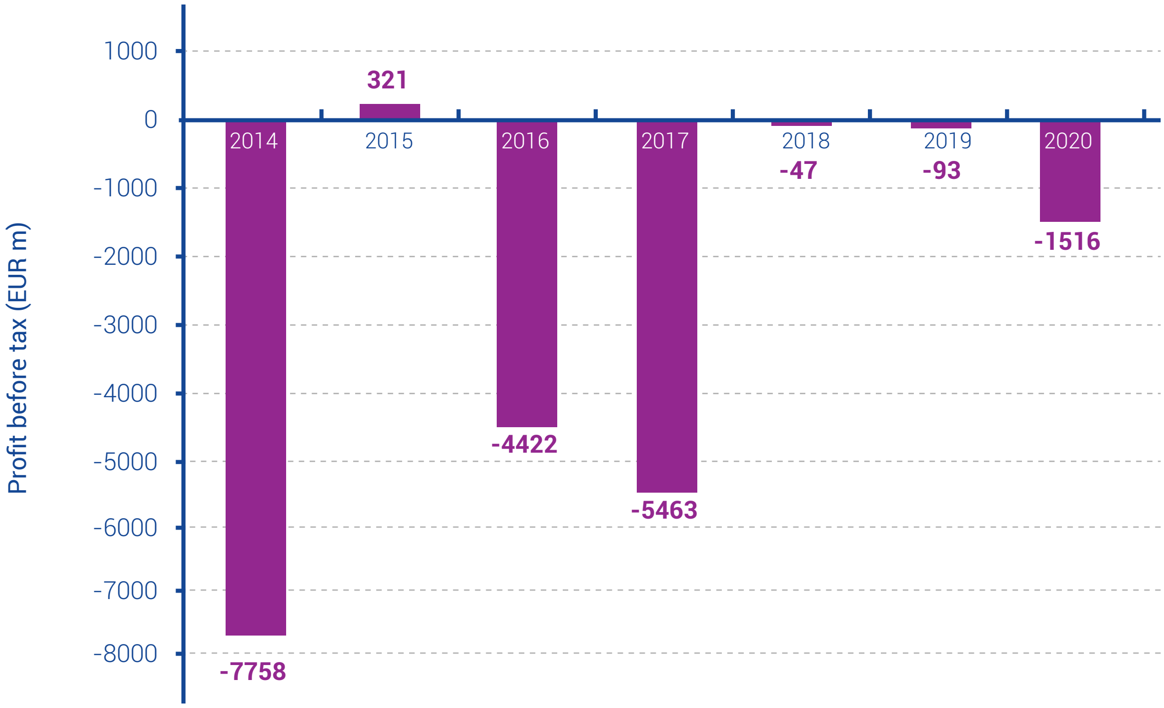
As we have seen in the previous figures, the different attribution of profits in Luxembourg makes a large difference for the observations concerning Monte di Paschi.

However, as Monte dei Paschi is one of the smallest banks in our sample, the overall conclusions of our study remain unaffected. As previously stated across the overall sample we observe that there is no trend in the presence of banks in tax havens from 2014 to 2020. On average EUR 20 billion profit booked in tax havens (see **Figure 7**), corresponding to 14% of overall positive profits on average.

The tax deficit estimates are also unaffected, as in our main results with a 15% minimum tax rate EUR 3-5 billion of additional revenue would be collected (see **Table 1**).

Figure 1

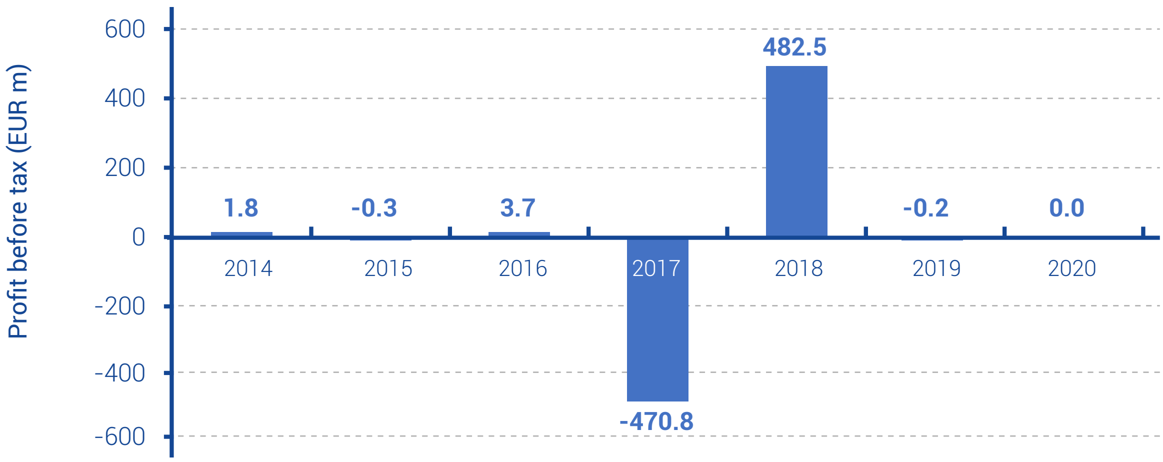
Total profit (loss) before tax for the Monte dei Paschi (EUR m)



Notes: This figure reports the total profit or loss before tax reported by Monte dei Paschi in their country by country reports. For each year the total is obtained by summing the figures across countries including both loss and profit-making subsidiaries.

Figure 2

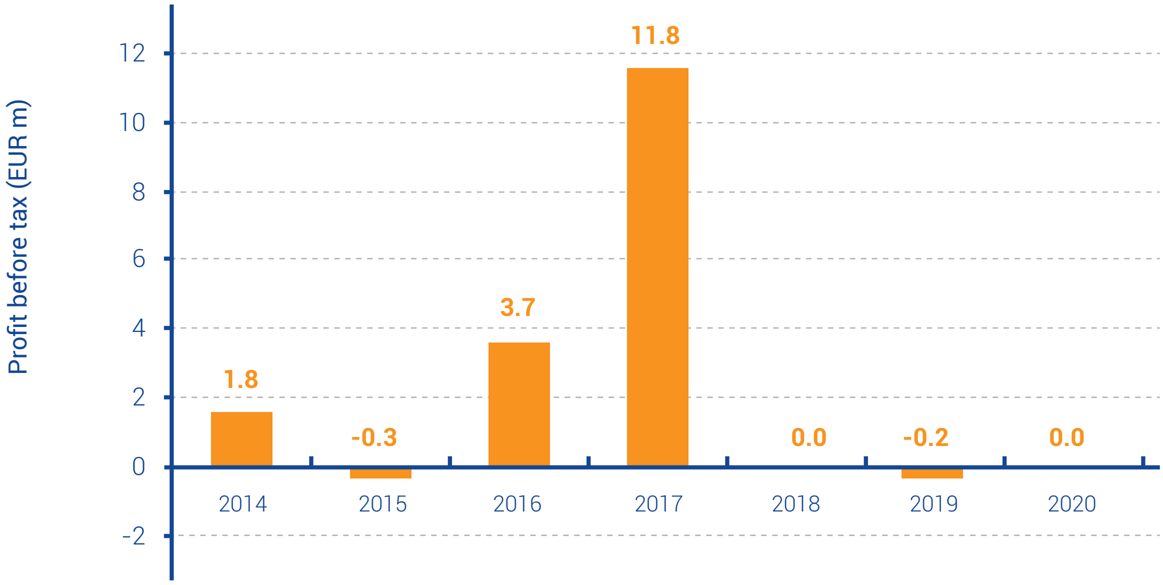
Profit before tax in Luxembourg with no adjustment (EUR m)



Notes: This figure reports the profit or loss before tax reported by Monte dei Paschi in their country by country reports for Luxembourg.

Figure 3

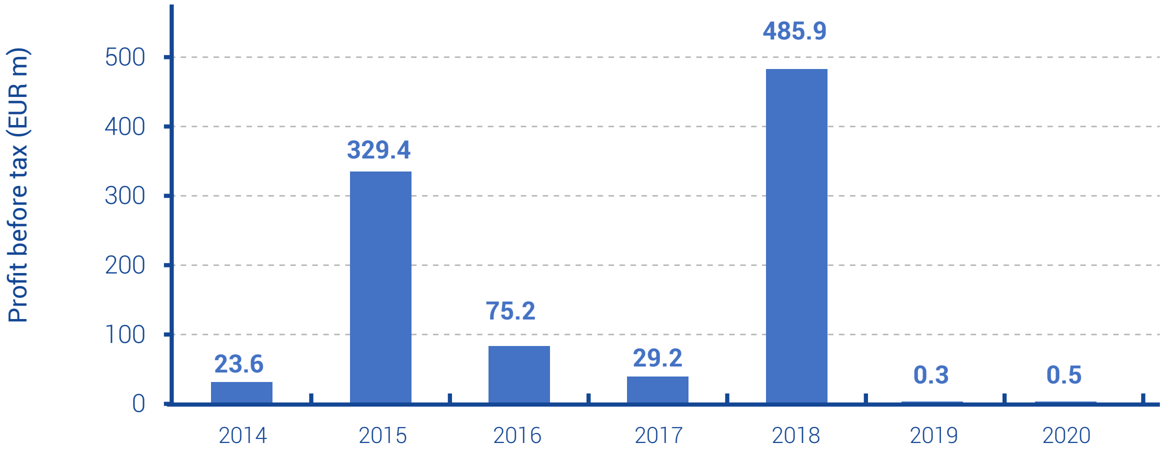
Profit before tax in Luxembourg with adjustment (EUR m)



Notes: This figure shown the profit or loss before tax in Luxembourg, where profits for 2017 are the balance between 2017 and 2018 figures.

Figure 4

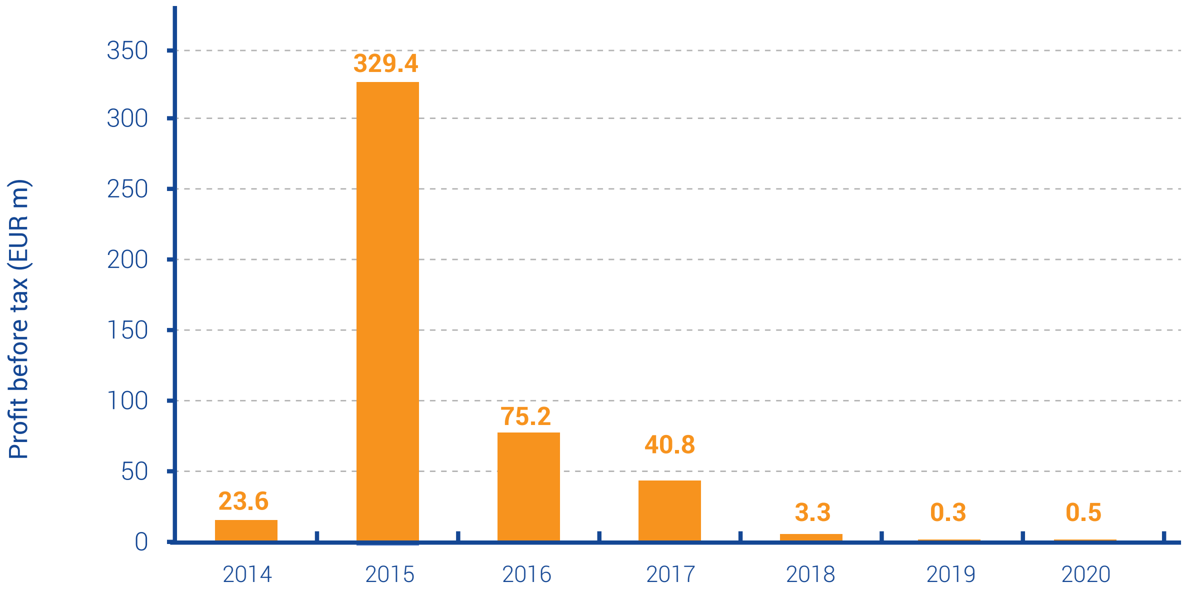
Total positive profit before tax of Monte dei Paschi without adjustment (EUR m)



Notes: This figure reports the total positive profit before tax reported by Monte dei Paschi in their country by country reports. For each year the total is obtained by summing positive profit figures across countries, excluding countries reporting losses.

Figure 5

Total positive profit before tax of Monte dei Paschi with adjustment (EUR m)



Notes: This figure reports the total positive profit before tax for Monte dei Paschi where 2017 profits for Luxembourg are the balance between 2017 and 2018 values, as reported in Figure 3. For each year the total is obtained by summing positive profit figures across countries, excluding countries reporting losses.

Figure 6

Total positive profit before tax in tax havens with and without adjustment (EUR m)

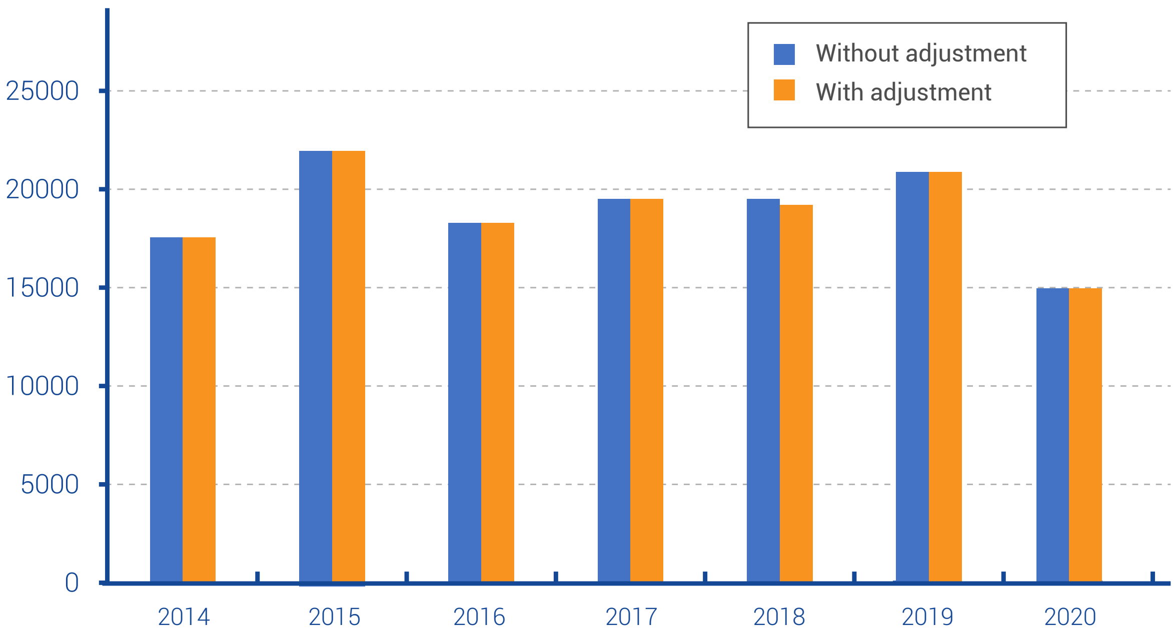


Table 1

Tax deficit estimates with adjustment

Year	2014	2015	2016	2017	2018	2019	2020
15% minimum tax							
Non-havens	2,412	1,527	1,466	1,861	1,121	1,539	900
Tax havens	560	934	662	1,120	1,066	896	603
Domestic	1,405	403	721	1,728	815	1,375	198
21% minimum tax							
Non-havens	4,369	2,931	2,902	3,605	2,853	3,054	1,951
Tax havens	1,458	2,026	1,587	2,194	2,097	2,080	1,349
Domestic	2,418	1,397	1,485	3,001	2,527	2,496	467
25% minimum tax							
Non-havens	6,083	4,270	4,382	5,541	4,562	4,478	3,047
Tax havens	2,098	2,834	2,256	2,953	2,824	2,887	1,915
Domestic	3,582	2,533	2,812	4,465	4,360	3,930	921

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About the EU Tax Observatory

The EU Tax Observatory is an independent research center that conducts and disseminate innovative studies on taxation and stimulates exchanges between the scientific community, civil society, and policy makers. The EU Tax Observatory aims to contribute to the development of knowledge and the emergence of new concrete proposals to address the tax and inequality challenges of the 21st century.

Its key missions are :

- to conduct and disseminate cutting-edge innovative research on taxation, with a focus on tax evasion and fraud, and potential solutions to these problems;

- to promote a democratic, inclusive, and pluralistic debate on the future of taxation by fostering dialogue between the scientific community, civil society, and policymakers in the European Union and worldwide;

- and to provide access to knowledge on taxation by making available to the general public a repository of data and analysis on our study topics, as well as interactive tools that allow them to easily understand and exploit them.

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