



MURKY HAVENS AND PHANTOM PROFITS

The Tax Affairs of EU and UK Banks

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CONTENTS

ABBREVIATIONS	2
GLOSSARY	3
1. EXECUTIVE SUMMARY	4
2. INTRODUCTION	5
2.1 PUBLIC COUNTRY-BY-COUNTRY REPORTING (CBCR) AND THE BANKING SECTOR	5
2.2 TRANSPARENCY INTERNATIONAL EU'S CORPORATE TAX TRACKER – BACKGROUND	6
3. METHODOLOGY	7
4. KEY FINDINGS	9
5. CASE STUDIES OF GLOBAL OPERATIONS BY EUROPEAN BANKS	14
5.1 BANKS' PRESENCE IN ZERO-TAX JURISDICTIONS	14
5.2 GHOST OPERATIONS	18
5.3 TAX INCENTIVES AS A MEANS TO ATTRACT BIG BANKS BY AFRICAN AND MIDDLE EASTERN COUNTRIES	19
5.4 BANK OPERATIONS IN LOW-TAX EU MEMBER STATES	22
5.5 TAX PLANNING STRATEGIES AND THEIR RESONANCE FOR THE EU	25
6. CONCLUSIONS AND RECOMMENDATIONS	27
ANNEX: Detailed methodology	31

ABBREVIATIONS

BEPS	Base Erosion and Profit Shifting
BMPS	Banca Monte dei Paschi di Siena
CBCR	Country-by-country reporting
CRD IV	Capital Requirement Directive IV
EC	European Commission
ECB	European Central Bank
ETR	Effective tax rate
EU	European Union
FTE	Full-time equivalent
OECD	Organisation for Economic Co-operation and Development
RBS	Royal Bank of Scotland
TI EU	Transparency International EU
UAE	United Arab Emirates
UK	United Kingdom

GLOSSARY¹

Country-by-country reporting

Country-by-country reporting refers to publishing key financial data by multinationals for each country they operate in as part of their annual financial statements. This data includes profits, losses, sales and purchases within the corporation, taxes and payments to governments as well as other information for each country of operation.

Effective tax rate

The **effective tax rate** is the average tax rate paid by an individual or a corporation. The effective tax rate for a corporation is the average rate at which its pre-tax profits are taxed after all tax credits and allowances are applied.

Nominal tax rate

The **nominal tax rate** is the legally imposed tax rate for an individual or a corporation.²

Non-cooperative jurisdiction

Non-cooperative jurisdictions for tax purposes are countries that have not met the European Union (EU)'s criteria related to tax transparency, fair taxation and the implementation of the Organisation for Economic Co-operation and Development (OECD) BEPS (Base Erosion and Profit Shifting) measures.

Productivity

Labour **productivity** means the amount of profits (before tax) a bank or a corporation make per employee in a certain jurisdiction. Comparing the productivity between different operations can reveal discrepancies in real economic activities.

Productivity imbalance

Productivity imbalance as an indicator compares the profits of a single operation to the profits that banks could expect if employees in that jurisdiction were as productive as on average. Positive (+) numbers indicate how much more the bank makes in the jurisdiction than it would make on average, whereas negative (-) numbers indicate the opposite.

Profitability

Profitability of the operations in a jurisdiction is measured by the amount of profit a bank or corporation makes in comparison to their turnover. As the current country-by-country reports published by banks only provide information on pre-tax profits, this ratio is calculated by dividing profits made in a selected jurisdiction by the overall turnover in that jurisdiction.

Profit

Profit describes the financial benefit realised when revenue generated from a business activity exceeds the expenses, costs and taxes involved in sustaining the activity in question. Profit is calculated as total turnover minus total expenses.

Profit shifting

The term **profit shifting** refers to corporate tax planning strategies used by multinationals to shift their profits from higher-tax jurisdictions to lower-tax jurisdictions.

The OECD defines profit shifting strategies as also exploiting gaps and mismatches in tax rules.

Turnover

Turnover is the income generated from normal business operations. It is the top line or gross income figure from which costs are subtracted to determine net income.

1. EXECUTIVE SUMMARY

This report highlights key trends and developments in the tax affairs of European Union (EU) banks, as revealed by Transparency International (TI EU)'s updated Corporate Tax Tracker website, which was launched in October 2020. The Tax Tracker makes country-by-country reporting (CbCR) data published by the largest EU banks from 2015-2019 available to the public in an accessible format.

Our research shows that:

- ▶ **At least 31 out of 39 banks routinely have operations in countries with favourable tax deals and in zero-tax jurisdictions – 11 per cent of banks' global operations during the reporting years were effectively tax-free.**
- ▶ **At least 29 out of 39 banks declare high profits in jurisdictions where they do not employ anyone, suggesting widespread profit shifting. Malta holds the top spot for 'ghost operations' in Europe.**
- ▶ **At least 15 out of 39 banks receive significant tax relief in several African and Middle Eastern countries. The top three countries are Mauritius, Saudi Arabia and the United Arab Emirates.**
- ▶ **At least 32 out of 39 banks have substantial operations in low-tax EU Member States. Ireland, Luxembourg and Malta are the most lucrative locations.**
- ▶ **At least 10 out of 39 banks declare, on average, profits that reveal shocking differences between their headquarter countries and the rest of their operations. For instance, the profits of Spanish banks abroad are 18 times higher than in their home country.**



Malta skyline / Photo by Thomas Ellmenreich via Unsplash

This report includes case studies that demonstrate the value of open data when identifying dubious corporate financial arrangements, as well as providing an overview of financial trends.

The report also provides an overview of the challenges encountered during the data analysis relating to data accessibility and to anomalies in the reporting by banks, which highlights the need for improved reporting standards at EU level.

As shown by our analysis, country-by-country reporting (CbCR) legislation has been a game-changer for the banking sector, ensuring the public availability of key financial data. This has significantly improved transparency and accountability in a notoriously opaque sector, despite the clear existing limitations of the data provided. The legislative process aimed at extending public CbCR requirements to large multinationals from all other sectors is currently stuck in the EU Council, with several Member States still strongly opposed to the measure.³ TI EU has been actively advocating for this legislation ever since it was first proposed by the European Commission in 2016.⁴

2. INTRODUCTION

The financial operations of large multinational companies remain opaque and far removed from public scrutiny. The public does not get much of an insight into the profits made and taxes paid by the largest corporations. Despite multiple leaks and studies assessing the severity of this issue, unfortunately there is still very little public information available on corporate tax affairs.

One of the rare beacons in the ocean of financial secrecy is the banking sector in the European Union, which has been required to improve its transparency by publishing key financial information on a country-by-country basis since 2015.⁵ This information provides citizens with a glimpse into how large EU-based banks operate, where they operate and how their money moves around.

2.1 PUBLIC COUNTRY-BY-COUNTRY REPORTING (CBCR) AND THE BANKING SECTOR

The absence of a comprehensive corporate financial transparency regime has led to a situation in which questionable corporate tax arrangements are often only brought to light by leaks such as LuxLeaks or the Paradise Papers.⁶ Despite mounting evidence of widespread corporate tax avoidance, the political will to ensure more stringent transparency rules for multinationals is still lacking.

The tools to increase corporate tax transparency already exist. Public CBCR is extremely useful as a risk assessment framework that would require multinational companies to report on and publicly disclose their key financial information on a country-

by-country basis. Practically speaking, it allows everyone, including citizens and decision-makers, to access data that may reveal useful information about the tax arrangements of multinationals in the countries where they operate.

Since 2015, as a result of the financial crisis of 2011, the EU has required the banking sector within its jurisdiction to publish full country-by-country financial reports. This is a provision set out by the Capital Requirements Directive (CRD) IV.⁷ This legislation provides citizens with the opportunity to look at a multi-billion-euro sector operating across the world.

The ultimate objective of having this data in the public domain is to check whether companies' tax payments are consistent with their real economic activities.

The exact disclosure requirements included in the Directive are:

1. Name(s), nature of activities and geographical location.
2. Turnover.
3. Number of employees on a full-time equivalent basis.
4. Profit or loss before tax.
5. Tax on profit or loss.
6. Public subsidies received.

2.2 TRANSPARENCY INTERNATIONAL EU'S CORPORATE TAX TRACKER – BACKGROUND

In October 2018, TI EU launched its interactive online platform, the Corporate Tax Tracker,⁸ which visualises public CBCR data published by EU banks.⁹ Although European banks have been publishing their key financial data since 2015, this information is often difficult to find and very complex, as banks are not required to publish this data either in a specific format or in a centralised repository. TI EU's platform provides the public with an easily understandable way of diving into the financial data of EU banks.

The Corporate Tax Tracker platform allows anyone to compare and analyse banks' activities and payments in different jurisdictions of operation. The visualisation of the data aims to provide more transparency in the corporate tax world by visualising **how much banks earn and pay in taxes in the countries they operate in.**

The Tax Tracker provides an essential insight into which countries the banks operate in, where they have most activities, where their profits are declared and how much tax is paid. This financial information, together with reporting the number of full-time employees, provides the public with a better understanding of how the banks arrange their operations.

In 2019 and 2020, TI EU worked on an update of the Corporate Tax Tracker, which was launched in October 2020.



Frankfurt skyscraper / Photo by Jakub Chlouba via Unsplash

TI EU's Corporate Tax Tracker is a tool that allows the public to examine the data reported by 39 of the largest banks in Europe. It collates and visualises the data, drawing on reports published by the banks between 2015 and 2019, including information on activities, location and tax payments.

The first iteration of the Tax Tracker did not feature a study to complement the online tool. However, given our experience following the launch of the first tracker, it is our aim to ensure that the valuable information and findings included in the platform stand out even more prominently.

3. METHODOLOGY

The data used on the website and in this report is based on the requirements set out in the EU's Capital Requirement Directive IV (CRD IV). The objective of having this data in the public domain is to enable the general public to check whether companies' tax payments are aligned with their real economic activities. It covers data published over five years of reporting (2015-2019) from 39 of the largest European banks. The data categories included in the online platform are: **turnover, number of employees, profit or loss before tax and tax on profit or loss.**

Our analysis highlighted multiple discrepancies and red flags in the disclosures of large European banks that feature on the platform. To identify these, we used the following indicators:¹⁰

- ▶ **Productivity** – the amount of profit made per employee
- ▶ **Profitability** – the amount of profit made in comparison to turnover
- ▶ **Discrepancies between nominal and effective tax rate**
- ▶ **Productivity imbalance** – the comparison between the profits of a single operation with the profits to be expected by the bank if employees in that jurisdiction were of average productivity

Dubai / Photo by David Rodrigo via Unsplash.



Most of these highlighted cases include operations where the banks pay taxes below the nominal tax rate of that jurisdiction, bank operations that generate huge profits with a very limited number of employees, or bank operations that generate very high profits compared to their turnover.

TI EU provided all the banks analysed and mentioned in this report with the opportunity to review and comment on its dataset, statements and case studies. Out of 39 banks, 15 responded and engaged with TI EU's inquiry. When considered justified and/or relevant, banks' responses were taken into account in the interpretation of the data. References to these exchanges as well as our assessment of them are included in the endnotes. In the interest of transparency, we compiled all the responses we received by banks in an additional Annex, which is available on the [TI EU website](#).

We grouped the most interesting case studies into the following five categories:

- 1. Banks' presence in zero-tax jurisdictions*
- 2. Ghost operations – banks declaring profits in jurisdictions where they have no employees*
- 3. Tax incentives as a means to attract big banks by African and Middle Eastern countries*
- 4. Bank operations in low-tax EU Member States*
- 5. Tax planning strategies and their resonance in the EU*

For this reason, our research findings should not be interpreted as a verdict on the level of taxes paid by European banks, but rather as a guide to understanding tax planning patterns in the sector over the past five years.

Alongside these five thematic categories, the report features a number of additional categories that provide further facts on the following issues:

- ▶ Banks' reporting of current vs. deferred tax
- ▶ Reporting anomalies
- ▶ The EU 'tax havens' list

It should also be noted that the CBCR data is not comprehensive. It provides only a glimpse into the world of banks' financial flows, which by no means encompasses the full complexity of tax accounting. The banking sector is an exception, and even in that sector, there are still shortcomings in following the transparency reporting standards.

The data itself also has some limitations that suggest better legislation is required. For example, the fact that legislation requires banks only to disclose the net figure of corporate income tax paid that year makes it impossible to tell whether or not the amount paid included any deferred tax from previous years – either tax credit or tax expense.

What could appear as a case of tax avoidance if looking only at figures in one year of accounting can suddenly become a legitimate tax expense once we see the tax flows in previous financial years. For this reason, our research findings should not be interpreted as a verdict on the level of taxes paid by European banks, but rather as a guide to understanding tax planning patterns in the sector over the past five years.

The 39 banks included in the Corporate Tax Tracker are:

Rank	Number on the dataset	Bank	Country of headquarter
1	1	HSBC Holdings Plc	UK
2	2	BNP Paribas SA	France
3	3	Crédit Agricole Group	France
4	4	Deutsche Bank AG	Germany
5	5	Banco Santander SA	Spain
6	6	Barclays Plc	UK
7	7	Société Générale SA	France
8	8	Groupe BPCE	France
9	9	Lloyds Banking Group Plc	UK
10	10	ING Groep NV	Netherlands
11	11	UniCredit SpA	Italy
12	12	Royal Bank of Scotland Group Plc	UK
13	13	Intesa Sanpaolo SpA	Italy
14	14	Crédit Mutuel Group	France
17	15	Banco Bilbao Vizcaya Argentaria SA	Spain
18	16	Rabobank	Netherlands
19	17	Nordea Group	Finland
20	18	Standard Chartered Plc	UK
21	19	DZ Bank AG	Germany
22	20	Danske Bank A/S	Denmark
23	21	Commerzbank AG	Germany
26	22	ABN AMRO Group NV	Netherlands
28	23	KBC Group NV	Belgium
29	24	Svenska Handelsbanken AB	Sweden
31	25	Nationwide Building Society	UK
32	26	Skandinaviska Enskilda Banken AB	Sweden
33	27	Landesbank Baden-Wuerttemberg	Germany
35	28	Swedbank AB	Sweden
36	29	Banco de Sabadell SA	Spain
37	30	Bankia SA (BFA Sociedad Tenedora de Acciones)	Spain
38	31	Erste Group Bank AG	Austria
39	32	Bayerische Landesbank	Germany
41	33	Nykredit AS	Denmark
44	34	Belfius Banque SA	Belgium
45	35	Norddeutsche Landesbank Girozentrale	Germany
47	36	Helaba	Germany
49	37	Banca Monte dei Paschi di Siena SpA	Italy
50	38	OP Financial Group	Finland
> 50	39	KfW IPEX	Germany

4. KEY FINDINGS

1. At least 31 out of the 39 banks routinely have operations in countries with favourable tax deals and in zero-tax jurisdictions¹¹

Our analysis of banks' country-by-country disclosures finds that 39 of the largest European banks have declared almost €4.5 billion profits in zero-tax jurisdictions from 2015-2019. It is worth noting that this trend peaked in 2016 and has been on a downward trajectory ever since.

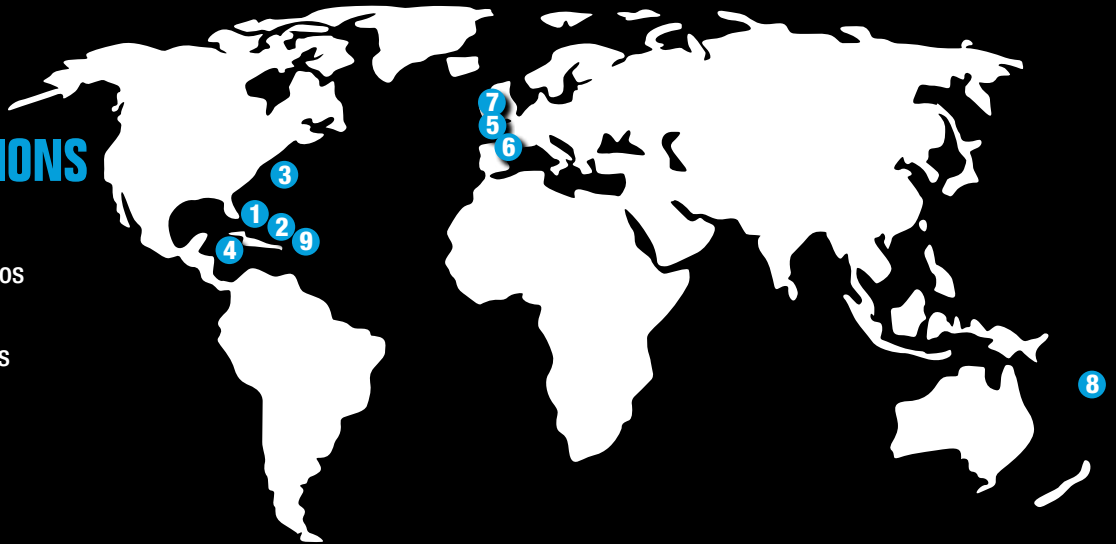
While the intensity of the use of traditional tax-free havens seems to be reducing, an opposite trend is emerging for tax-free profits in non-tax-free regimes. While banking operations in traditional tax

havens are decreasing, at the same time they are increasing in countries that offer highly favourable tax deals. Operating in countries with seemingly standard taxation rates but paying zero or very low corporate income tax in practice has clear benefits. Corporations can enjoy their profits tax-free without potential reputational damage, which is essentially a double win as both their tax expenses as well as tax risks are driven downwards.

Our analysis shows that the countries where this happens the most frequently are: **Hong Kong, Ireland and Luxembourg**. 11 per cent of banks' global operations during the reporting years were effectively tax-free.

ZERO-TAX JURISDICTIONS

- 1 Bahamas
- 2 Turks and Caicos
- 3 Bermuda
- 4 Cayman Islands
- 5 Guernsey
- 6 Jersey
- 7 Isle of Man
- 8 Vanuatu
- 9 Anguilla



11% of banks' global operations during the reporting years were effectively tax-free.

BOX 1: Banks' reporting on current vs. deferred taxes

The country-by-country data of the **German bank KfW IPEX** perfectly illustrates the need to improve the disclosure requirements of the current CBCR legislation for the banking sector in favour of more detailed reporting in the corporate income tax entry. In 2019, KfW IPEX disclosed only having paid €0.2 million in tax on its €185.5 million total profits – translated into an effective tax rate of 0.1 per cent. When analysing KfW IPEX's reports prior to 2019, the tax expenses the bank declared were also abnormally low, even reaching an overall ETR of zero per cent in 2017.

However, reviewing the CBCR data from 2015, we found that the German bank paid corporation tax worth almost 40 per cent of its annual profits, a rate that is higher than the applicable corporate tax rate at the time. This suggests that the lower taxes paid in subsequent years may be a result of the higher taxes paid in this one year. What this figure clearly shows is that understanding a bank's tax behaviour requires more historic context than a simple annual tax expense figure can provide.

To avoid misinterpretation and to increase the comprehensiveness of the country-by-country disclosures, a requirement for banks to break down what they paid in corporate income tax in the reporting year into an entry for both the current and the deferred tax on income should be added to the legislation. Instances such as KBC or Société Générale, which include this information in their CBCR disclosures on a voluntary basis, demonstrate that this reporting amendment should not be difficult for banks to implement. For the CBCR Directive to meet its objective and allow the public to hold financial corporations accountable for their tax handling, it is crucial that the reported data is fully reflective of what it aims to demonstrate.



Société Générale offices / Photo by Kiev.Victor via Shutterstock

2. At least 29 out of the 39 banks declare high profits in jurisdictions where they do not employ anyone¹²

Our research reveals numerous cases where banks reported economic activity in jurisdictions where they employed no staff whatsoever. Over the five years since the legislation came into force, banks' annual reports revealed 210 instances of activity in countries where the companies simultaneously declared having no employees.

The top three banks for either number of 'ghost operations' or volume of profits made there are **UniCredit, HSBC and Société Générale**.

The jurisdiction where banks' activity is most frequently run by 'ghosts' is the **Cayman Islands**, while **Malta** holds the top spot in Europe.

3. At least 15 out of the 39 banks receive significant tax relief in several African and Middle Eastern countries¹³

Alongside the most well-known destinations for tax purposes, such as many Caribbean islands and a number of selected European countries, our research confirms that ‘new’ jurisdictions have been on the rise. Our analysis suggests that large banks may have received significant tax relief in several countries in Africa and the Middle East. The top three countries where this trend is most notable in these regions are **Mauritius, Saudi Arabia and the United Arab Emirates (UAE)**:

- ▶ In 2016, **Barclays** reported having earned €472 million in profits in **Mauritius**, while only making €143 million in turnover there that same year, meaning that it profited more than €3.30 for each earned euro in the jurisdiction, a return of 330 per cent.
- ▶ In each reporting year, **HSBC** recorded profits of at least €350 million in **Saudi Arabia**, while documenting neither turnover nor employees.
- ▶ **Saudi Arabia** has one the most productive bank staff in our sample of countries. Over the course of five years, an average employee in the Middle Eastern country created €3.3 million of profits annually, making Saudi bank workers 16 times more productive than those in Sweden.
- ▶ Over the years, **Italian Banca Intesa SanPaolo** paid just €0.3 million in corporate income tax on its total profits of €404 million profits in the **UAE**. Translated into effective tax rate terms, this means that the bank’s profits earned over the years were taxed at 0.08 per cent.

4. At least 32 out of the 39 banks have substantial operations in low-tax EU Member States¹⁴

Our analysis highlights the role that some EU Member States play in the global corporate tax avoidance world. When looking at the facts and figures around low-tax EU Member States, it becomes clear why it is so hard to adopt more stringent rules and policies on corporate tax transparency at the EU level. A quarter of countries listed by the Tax Justice Network¹⁵ in the top 20 of the **Corporate Tax Haven Index 2019** are EU Member States.



Irish coast / Dmitry Anikin via Unsplash

Our report shows that, of the 22 most productive operations of European banks’ subsidiaries from 2015-2019, 14 occur in **Ireland, Luxembourg and Malta**. Although bank staff working in the three countries constitute less than 1 per cent of all employees in our sample of banks, over 5 per cent of all profits are created there. More detailed findings confirming these trends include:

- ▶ The total effective tax rate paid by banks on their reported profits in **Luxembourg** has consistently fallen, from 17.28 per cent in 2015 to its minimum of 11.2 per cent in 2019.
- ▶ The total average profit ratio of banks’ operations in **Malta** amounts to almost 69 per cent. During 2015-2019, banks paid a total effective corporate tax rate of only 9.1 per cent on their profits in Malta – almost four times lower than the country’s official tax rate.
- ▶ Profits of the 39 European banks in **Austria** in 2018 were smaller (€1.3 billion) than those made in **Ireland** (€1.4 billion), despite the fact that the headcount of their staff in Austria was five times greater than in Ireland.

5. At least 10 out of the 39 banks declare, on average, profits that reveal shocking differences between their headquarter countries and the rest of their operations

Clear tax planning practices emerge when looking at some of the banks’ behaviour in the country where they are headquartered. Differences between how much some banks declare in profits

in their headquarter countries and the rest of their operations can be shocking:

- ▶ The Spanish banks **Banco Santander, Bankia, BBVA and Banco de Sabadell** have reported a total profit ratio of only 1.47 per cent for their activity in Spain, while their average profitability in all countries of operation exceeds 25 per cent. In other words, the profit earned by Spanish is less than 1.5 cents for each euro earned in Spain, but almost 18 times more for each euro earned across all jurisdictions they operate in.

In the context of the current global pandemic that has badly affected Europe, it is necessary to highlight that our research shows **Spain, Austria, Germany, France and Italy** are the five EU Member States with the lowest profitability of bank operations – the amount of money profited on each euro earned in turnover. European banks have reported lower profitability during 2015-2019 than the global average in these countries: 24 cents per euro earned in turnover.

In **Italy**, banks have profited only an average of 10 cents from each euro earned in the jurisdiction over the years. In **Spain**, it has been less than 6 cents. In



Santander bikes / Photo by Sid Balachandran via Unsplash

contrast, all banks operating in **Luxembourg** have profited an average of 60.5 cents on each euro, and banks in Malta have profited 68.9 cents.

Some of these countries have also been among the hardest hit by the Covid-19 crisis. Taxes from large corporations could have supported badly stretched public healthcare services.

Box 2: Reporting anomalies

The analysis of CBCR data of the 39 European banks reveals that the way banks disclose their data is sometimes not complete and sometimes even incorrect. At least four banks (**Banco Santander, Nationwide Building Society, Société Générale and Standard Chartered**)¹⁶

Instead of disclosing the full list of their jurisdictions with the corresponding financial results, we have found some banks included a footnote or a disclaimer next to the report simply stating that some of the reported profits include money from other non-listed jurisdictions. For example, in 2018 and 2019, **Banco Santander** lumped its profits from the Cayman Islands with the figures reported under its Brazil operations.

Nationwide Building Society similarly noted that its profits made in the Isle of Man were included in the numbers for the UK, while not specifying any amount.

This practice undermines the integrity of the data and the overall purpose of country-by-country reporting, as the financial activity of misreporting banks is not fully disclosed. As the overwhelming majority of these incorrectly disclosed cases were in jurisdictions that have a reputation as tax havens, doubts arise to whether this is perhaps a manoeuvre by banks to avoid reporting their profit shifting activity in full. Such information included in the footnotes is difficult to spot and it rarely contains any figures, making it easy for a reader to overlook a bank's presence in the Cayman Islands or Singapore, and even impossible to quantify the size of those operations.

5. CASE STUDIES OF GLOBAL OPERATIONS BY EUROPEAN BANKS

5.1 BANKS' PRESENCE IN ZERO-TAX JURISDICTIONS

Currently, 9 jurisdictions globally¹⁷ charge a corporate income tax of zero to companies operating on their territory: **Anguilla, Bahamas, Bermuda, Cayman Islands, Guernsey, Isle of Man, Jersey, Turks and Caicos Islands and Vanuatu**. In some cases, however, national tax legislation does not apply a single tax rate across all corporate sectors, but rather tailors the size of

the corporate income tax to specific industries or industry groupings. Due to this, corporations operating in the banking industry in Guernsey, Isle of Man and Jersey are subject to a corporate income tax of 10 per cent – meaning that banks' activities on these islands are not tax-free, but still taxed considerably less than in other countries.

Based on country-by-country disclosures, 39 of the largest European banks have declared almost €4.5 billion profits in these zero-tax jurisdictions over the five-year period.

Cayman Island / Photo by Andy Morehouse via Shutterstock



A closer analysis shows that their popularity peaked in 2016, when EU banks declared almost €1.3 billion of profits in 51 different operations. Since then, the volume of earnings channelled to the 10 tax havens has been steadily decreasing. One of the most prominent of them all seems to be the **Cayman Islands**, the usual suspect of any discussion on tax havens.

One third of the largest European banks recorded operating on the Caribbean islands in at least one of the years analysed. Were it not for its status as a tax haven, it would be hard to understand why a country with the geographic and economic features of the Cayman Islands became so popular among

European multinationals. At the same time, a closer look at the data suggests that the golden years of offshoring to the Cayman Islands might be slowly coming to an end¹⁸ as European banks report less and less activity on these islands.

BNP Paribas made a €134 million profit in the jurisdiction in 2015, but this fell to only €8 million in 2019. **Banco Santander, Rabobank and Royal Bank of Scotland** entirely ceased their operations in the region by the end of 2019. Earlier this year, the Cayman Islands was finally blacklisted by the EU as one of the so-called ‘non-cooperative jurisdictions’ after remaining on the grey list since 2018.

Box 3: The EU ‘tax havens’ list

In 2017, the European Union set up a ‘list of non-cooperative jurisdictions for tax purposes’ in order to tackle tax abuse. Often dubbed as the EU list of tax havens, the list includes jurisdictions that do not meet the EU’s criteria for tax transparency, fair taxation and international standards in addressing tax issues. While the so-called grey list is seen as a ‘watchlist’ where countries are monitored for their progress with regard to the issues flagged by EU officials, the ‘blacklist’ features jurisdictions that have failed to commit or follow up on the commitments made to the EU.

According to the EU, the list does not serve as a tool to name and shame, but rather an incentive for positive change through cooperation. As jurisdictions can be listed and delisted based on the EU’s periodic monitoring, the list is subject to a continued change. At the time of writing, the blacklist is composed of 12 jurisdictions: **American Samoa, Anguilla, Barbados, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, US Virgin Islands, Vanuatu and Seychelles.**

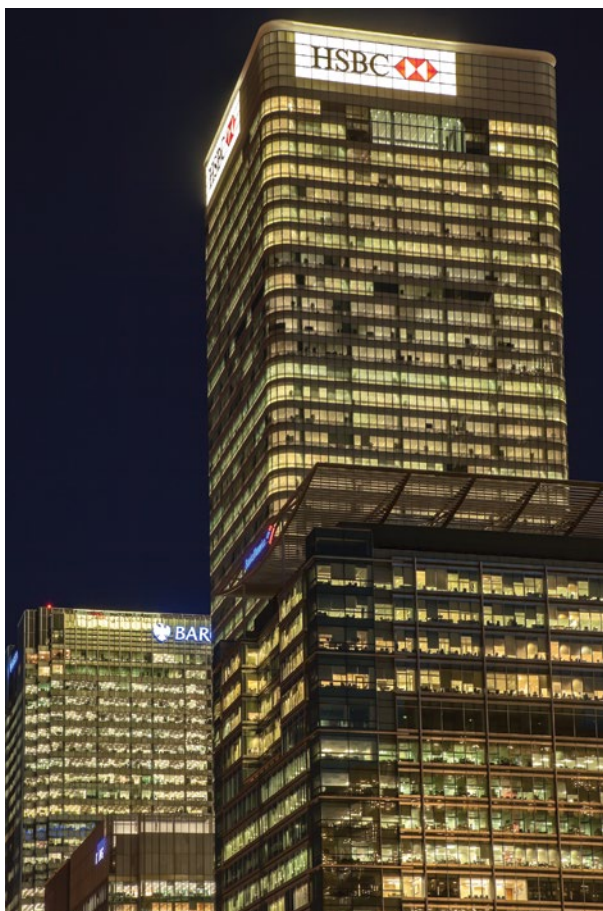
Despite being successful in navigating some countries towards better tax legislation and practices (such as the **Bahamas, Bermuda and Vietnam**, which were removed from the grey list in early 2020 after managing to implement some of the reforms requested by the EU), it has also been widely criticised. Failing to include many notorious jurisdictions such as **Hong Kong or Switzerland** as well as completely omitting tax havens among EU Member States. Many civil organisations, including TI EU, see the list as flawed and unfit for purpose.

In parallel, the **Tax Justice Network** created two indices that capture the most active jurisdictions in the global tax abuse scheme – the **Corporate Tax Haven Index** and the **Financial Secrecy Index**. Both of the indices share some building blocks with the EU ‘tax havens’ list but face no political influence and hence offer a better reflection of the current global tax landscape. According to the latest results of the indices, the current version of the EU blacklist does not feature any of the world’s top 10 most important tax havens for multinationals.¹⁹

Jersey

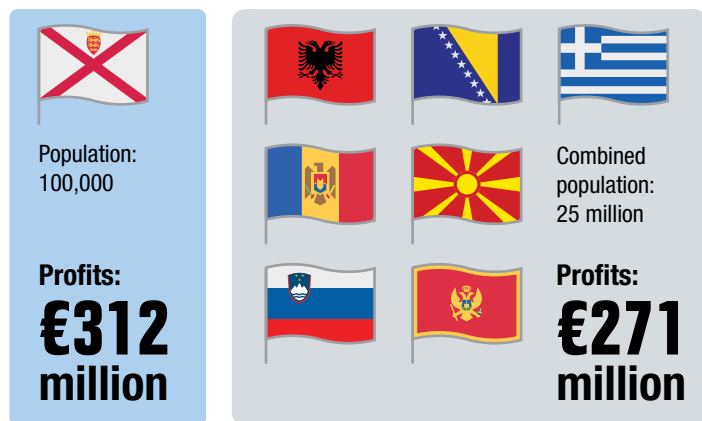
The most common offshore destination of our sample of banks is actually located in Europe.

In 2018, Jersey, the British Crown Dependency that is home to around 100,000 people, registered larger profits from multinational banks than Albania, Bosnia and Herzegovina, Greece, Macedonia, Moldova, Montenegro and Slovenia combined. With the total value of profits declared in the island over the period 2015-2019 exceeding €1.6 billion, Jersey is the most attractive minimum tax rate jurisdiction for European banks not only in terms of frequency of use, but also in terms of volume of shifted income. Perhaps unsurprisingly, almost 93 per cent of this value is made up of profits from five British banks – **RBS, Barclays, HSBC, Lloyds and Standard Chartered**.



HSBC offices / Photo by Gordon Bell via Shutterstock

In 2018, Jersey, registered larger profits from multinational banks than Albania, Bosnia and Herzegovina, Greece, Macedonia, Moldova, Montenegro and Slovenia combined:



Large inflows of profits from multinationals despite little economic substance on the small island is a reality that transcends the banking industry and defines the whole corporate sector. None of this information is secret. On the contrary, Jersey openly markets itself as the centre of offshore finance and builds its image on a welcoming tax environment and discretion for both individuals and corporate entities. Jersey ranked seventh on the global Corporate Tax Haven Index 2019 compiled by the Tax Justice Network, and features in the top 20 of the organisation's latest Financial Secrecy Index.²⁰

Effective tax rate, zero

The CBCR disclosures also reveal that it is not a rare occurrence for large banks to pay no corporate income tax in countries that officially charge tax rates higher than zero per cent. In fact, each year from 2015 to 2019 there have been over 100 cases of banks not paying any tax on their positive profits mainly in jurisdictions with non-zero corporate income tax rates, and the numbers seem to be growing. **In total over the five-year period, a sum of €14 billion of profits has been tax-free.** While the intensity of the banking sector's use of traditional tax-free havens seems to be on the decline, according to the country-by-country data, an opposite trend is emerging for tax-free profits in non-tax-free regimes.



Barclays ATM / Photo by nanka via Shutterstock

There are other ways in which a country can attract large corporations to base their operations under their jurisdiction apart from dropping its income tax rate. Special tax deals such as those revealed in the LuxLeaks scandal, capital gains tax removal, special intellectual property-related income and many more are only a fragment of the complex tax avoidance machinery accelerated by globalisation and changing business models.

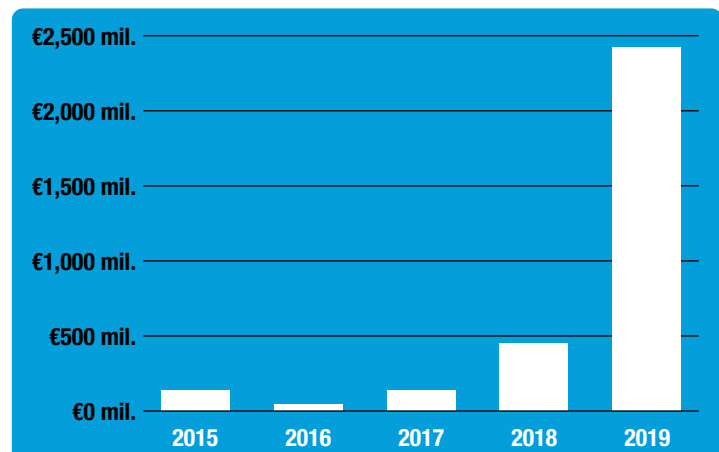
The financial data shows that, in 2019 alone, more than €4.3 billion of profits earned by European banking multinationals were taxed at zero per cent. This is almost equivalent to the GDP of a country like Moldova²¹ in the same year. This figure is so far the highest since the obligation to disclose information came into force, indicating that tailored tax deals are quickly gaining popularity. Operating in countries with seemingly standard taxation rates but paying zero in corporate income tax in practice has clear benefits. Corporations can enjoy their income tax-free without potential

reputational damage, which is essentially a double win as both their tax expenses as well as tax risks are driven downwards.

Globally, **Hong Kong** is the jurisdiction that has seen the most cases (20) of banks paying zero tax on their profits in the region, despite the local nominal corporate income tax rate standing at 16.5 per cent. **Ireland** follows closely with 18 instances of tax-free profits declared by European banks over the five years of reporting. Altogether, banks operating there recorded a total of over €743 million of profits in the jurisdiction that were free of any corporate income tax. Used less frequently, but with a higher volume in terms of euros taxed at zero per cent, comes **Luxembourg**. Here, banks' earnings have totalled almost €1.3 billion since 2015. This is due to Barclays' operations in 2018 and 2019, when the bank made a profit of €1.195 billion, on which it paid no income tax. Nominal corporate income tax rate in Ireland and Luxembourg is currently at 12.5 per cent and 24.94 per cent respectively.

The British banking giant **Barclays** seems to be the champion of earning tax-free profits across other jurisdictions too. Since the reporting legislation came into effect, over €3 billion of the bank's profits were subject to zero effective tax. Besides the €780 million of profits in Luxembourg, the bank did not pay any corporate income tax on its €1.5 billion profits in the UK in 2019. It looks like 2019 was rather a favourable year for paying zero taxes for other British banks too. **Standard Chartered's** €795 million profit in the UK, and **Royal Bank of Scotland's** €173 million profits in the **Netherlands** were taxed at zero per cent and as well.

Barclays has made €3.1 billion in untaxed profits since 2015, and €2.4 billion in 2019 alone



CBCR data for some of the largest European banks in any case point to a worrying trend of increased untaxed income under regimes that officially do not carry the label of a tax haven – at least in the eyes of the EU authorities. The jurisdictions with the highest reported intensity of untaxed income – Hong Kong, Ireland or Luxembourg – do not appear on either the EU blacklist or on the ‘grey list’ of non-cooperative jurisdictions for tax purposes, the unofficial EU list of tax havens that was adopted recently to help scrutinise companies receiving financial aid in multiple Member States as part of the Covid-19 response. **As banks did not pay any tax on 11 per cent of all profitable operations over the years analysed in this report, more scrutiny of tax avoidance trends is now more essential than ever.** Not monitoring financial flows within large corporations comes at a cost to society as profits that would otherwise flow partly into the public coffers end up untaxed in offshore accounts – maybe not so much in the Caribbean anymore, but in the secretive bank vaults of Luxembourg or Hong Kong.

5.2 GHOST OPERATIONS

One of the most disturbing findings in our analysis is the widespread phenomenon of ‘ghost’ operations. On numerous occasions banks disclosed having some economic activity (that is, either some volume of turnover or profit) in jurisdictions where they employed no staff whatsoever. **Over the five years since the legislation came into force, banks’ annual reports revealed 210 instances of activity in countries where the companies simultaneously declared zero employees.** While running operations in countries considered to be tax havens for their favourable tax deals may be explained by a variety of legitimate reasons, registering an empty subsidiary with profits amounting to tens or even hundreds of millions of euros can mostly point in one direction: profit shifting.

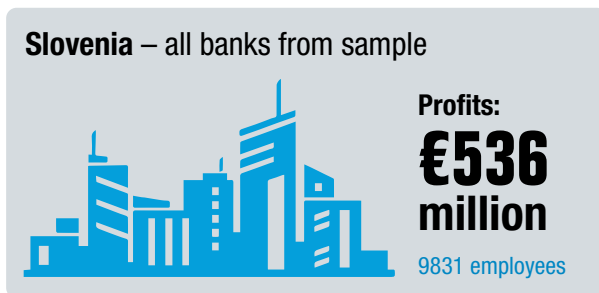
The jurisdiction where banks’ activity is most frequently run by ‘ghosts’ is the **Cayman Islands**. On 20 occasions, eight different banks²² reported being active on the islands without employing a single person to generate this activity. **Malta** takes the top spot in Europe, recording 14 cases²³ of banks operating in the jurisdiction with zero staff. In this ‘ghostly’ way, banks generated €590 million in Malta between 2015 and 2019 – a number comparable to the total volume of all profits made in Slovenia during the same period, with the difference being that Slovenian branches needed 9,831 employees to generate similar profits.



Unicredit Tower / Photo by Marco Rubino via Shutterstock

Banks did not pay any tax on 11 per cent of all profitable operations over the years analysed in this report

2015-2019: Despite having no employees, ghostly bank operations in Malta generated profits comparable to all banking operations in Slovenia



Looking at the country-by-country data of **Unicredit**, the bank with the most prominent 'ghostly' presence, leaves no room for doubt about the profit shifting nature of the bank's tax planning strategy. In 37 different instances of economic activity in subsidiaries with a head count of zero, the Italian bank earned more than a staggering €1.6 billion in profits.²⁴

An even higher volume of profits generated in 'ghost jurisdictions' was found in **HSBC's** country-by-country disclosures. Since 2015, the bank has made a net profit of €1.6 billion in only one of its subsidiaries despite declaring no employees there. This country is **Saudi Arabia**.²⁵ A closer look into CBCR reports of the French banking giant **Société Générale** exposes frequent 'ghost' activities. The bank has reported positive profits but no staff in 22 operations over the years, including countries like **Bermuda, Curacao, Cyprus, Hungary, Lebanon or Ukraine**.²⁶ Not only did Société Générale not pay any employee costs in relation to these earnings, it also paid a minimum tax bill on the profits, just 2.3 per cent.²⁷

5.3 TAX INCENTIVES AS A MEANS TO ATTRACT BIG BANKS BY AFRICAN AND MIDDLE EASTERN COUNTRIES

Tax havens are not just a prerogative of tropical islands in the Caribbean or a select number of European states. Similar corporate tax landscapes can also be found on other continents.

According to financial flows recorded in CBCR disclosures, large banks may have been receiving significant tax relief in some countries in Africa and the Middle East. For instance, **Crédit Mutuel** has consistently recorded positive profits on an annual basis in **Morocco** without registering any turnover or employees in the country. The bank also applied the same method on a smaller profit scale in **Tunisia**. From 2015-2019, the bank has diverted **€375 million through its Moroccan and Tunisian operations**.



Dubai / Photo by ZQ Lee via Unsplash

Mauritius

The African hotspot for tax affairs management is located a few thousand kilometres to the south-east, in Mauritius. This small island in the Indian Ocean has recently become the main subject of the latest tax scandal, the Mauritius Leaks.²⁸ Selling itself as the 'gateway' to the developing world, Mauritius offers incoming corporations and

individuals low tax rates as well as tax treaty abuse allowing them to keep their tax obligations in many African states to a minimum, such as allowing companies to avoid paying capital gains tax.

The island's reputation did not escape the attention of the banking sector. Nine European banks disclosed having active operations in Mauritius in at least one of the years between 2015 and 2019. These are **Barclays, Credit Agricole, Deutsche Banks, BPCE, HSBC, ING, Rabobank, Société Générale and Standard Chartered**.

In 2016, **Barclays** reported having earned profits of almost €500 million in the jurisdiction. Such profit volume might be relatively high, but is still not uncommon for a bank of Barclays' size. However, this changes in a snap second once we take a look at accompanying data. **The bank made only €143 million in turnover that year in Mauritius, meaning that it profited more than €3.30 on each euro earned there.**

Typically, the profitability of a company rarely ever reaches 100 per cent because of fixed expenses like maintaining an office, staff costs and similar outgoings. A return of over 330 per cent indicates a mismatch between accounting figures and real economic activity. In **South Africa** in 2017, the bank needed 16 times more employees than in Mauritius to generate a similar profit of €404 million.

A striking tax 'efficiency' was also registered in **ING's** operations in the jurisdiction in 2015 – the bank managed to earn €380 million in turnover as well as in profits. ING's remarkable 100 per cent profit ratio was accompanied by a €0 tax bill and zero staff costs. In fact, the firm declared employing zero staff in their Mauritian 'branch'.

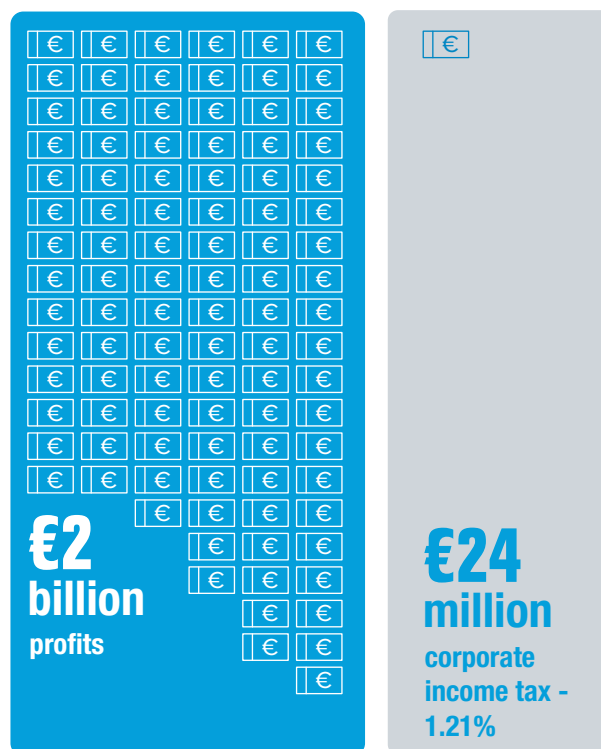
A positive trend we find in the banks' disclosures in Mauritius is the slowing of economic activity in the country. While the volume of profits registered in the island peaked around 2015 and 2016, overall profit figures in Mauritius had mostly reached zero by 2019. This is a similar trajectory as the banks' operations in some of the traditional Caribbean tax havens.

Saudi Arabia

In the same time zone, but on another continent, our research finds yet another group of countries with favourable tax environments for multinationals. The jurisdiction that stands out most prominently from the country-by-country disclosures in the Middle East region is Saudi Arabia. While the overall turnover of banks operating in the country totalled slightly over €600 million throughout the analysed period, the total profits equalled almost €2 billion. This is just the start.

The overall corporate income tax revenue from these €2 billion profits was €24 million, which translates into a rock-bottom effective tax rate of 1.21 per cent for the period of 2015-2019.

Tax and profits in Saudi Arabia for all analysed banks, 2015-2019:



Despite five different European banks having their operations registered in Saudi Arabia,²⁹ a closer look at the data reveals that only two banks are responsible for the overwhelming majority of this activity – **HSBC and Royal Bank of Scotland (RBS)**. Both of the banks record profits exceeding

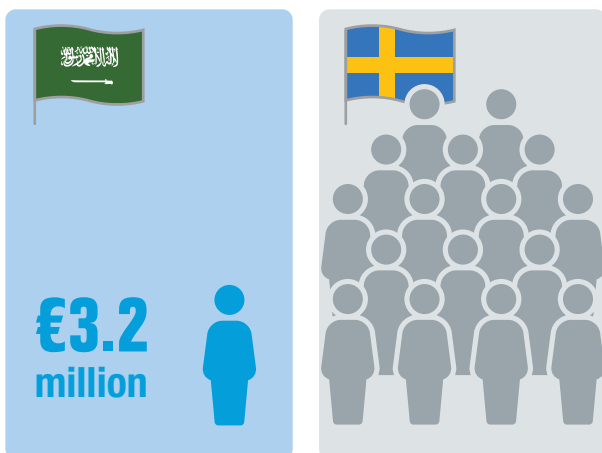
€1.52 billion, but do not have any employees in the country. Declaring profits comparable with those made in Canada, Singapore or France, HSBC's activity in Saudi Arabia is striking for reasons beyond having no staff.

In spite of its large profits amounting to at least €350 million in every reporting year, the banks always reported zero turnover. The overall figure of zero income tax paid in the jurisdiction in all years completes the picture of an exemplary case of profit shifting.

Broadly, the numbers in RBS's books mirror those of HSBC. Although the bank's reported profits in the country are not as high, the bank 'operates' in Saudi Arabia with no employees. Unlike HSBC, RBS actually does record economic turnover in the country. The fact that it incurs zero costs for its operations in the country, generating 100 per cent profitability on each euro earned, does not make RBS's activity in the jurisdiction any less suspicious.

Due to the activities of these two banks, Saudi Arabia now has one of the most productive banking workforces in our sample of countries. **Over the course of five years, the average employee from the region created €3.2 million of profits per year, making the Saudi bank workers 16 times more productive than those in Sweden – a country with one of the highest levels of labour productivity in the world.**³⁰

The average Saudi employee in our sample created €3.2 million annually - making them 16 times as productive as the average Swedish employee:



The Italian bank paid as little as €0.3 million in corporate income tax on its total of €404 million UAE profits. Translated into effective tax rate terms, this means that the bank's profits earned over the years were taxed at just 0.08 per cent.

The United Arab Emirates

Zooming in on country-by-country disclosures of banks from Saudi Arabia's Eastern neighbour, the United Arab Emirates, provides yet another insight into the curiosities of corporate tax avoidance planning. From our sample of some of the 39 largest European banks, 14 of them³¹ reported economic activity in the jurisdiction in at least one of the past five years.

The most notable case is the one of **Banca Intesa SanPaolo**. The Italian bank paid as little as €0.3 million in corporate income tax on its total of €404 million UAE profits. Translated into effective tax rate terms, this means that the bank's profits earned over the years were taxed at just 0.08 per cent. Intesa's profits peaked in 2018 when it declared earning €137 million in the jurisdiction, a volume larger than the bank's profits from its operations in France and Hungary combined in the same year. In those two countries, however, the headcount of Intesa's local subsidiaries is almost 60 times as large.

Intesa Sanpaolo is not the only bank that did not pay a single cent in corporate income tax on its UAE operations. The French bank **BPCE** as well as the Dutch bank **ABN AMRO** did not declare any taxes paid despite earning positive profits in the oil-rich country.³² **Crédit Agricole** paid only €1 million in corporate income tax each year on its tens of millions of UAE profits (€180 million in total over the five years of analysis), except for 2016 when it paid €2 million.

5.4 BANK OPERATIONS IN LOW-TAX EU MEMBER STATES

Corporate tax avoidance is not the secretive offshoring of briefcases filled with cash to island havens. Today, it occurs as a sophisticated system interwoven with regulatory loopholes, diverted income flows, accounting tricks and often the blessing of official tax authorities.

Every state has a right to be the sovereign architect of their own tax legislation, including EU Member States. Therefore, it is hard to imagine how the current landscape of disparate corporate tax rates around the world might be solved without a multilateral approach. In recent years, we have seen the **Organisation for Economic Co-operation and Development (OECD)** actively trying to develop measures to ensure companies pay taxes based on their true economic activity.

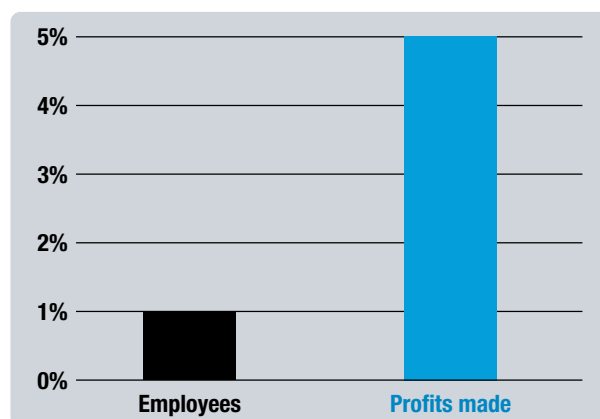
During its last political term, the EU also tried to tackle tax avoidance with several reforms, one of them being the stagnating public CBCR proposal. The EU's reluctance to move forward with the file becomes clearer when we look at the role some of the Member States play in global corporate tax avoidance.

One quarter of countries in the top 20 of the Corporate Tax Haven Index 2019, compiled by the Tax Justice Network,³³ are actually members of the EU. **The Netherlands, Luxembourg, Ireland, Belgium, Cyprus and Hungary**, who are prominent beneficiaries of global tax avoidance according to the index, are at the same time those making decisions on the EU's approach to tackling aggressive tax planning.

Although bank staff working in the three countries constitutes less than 1 per cent of all employees in our sample of banks, over 5 per cent of all profits are created there.

The conflict of interest is self-evident. Our analysis of the CBCR data of European banks only underscores this fact. Out of the 30 most productive operations of bank subsidiaries in 2015-2019, 22 were based in Europe. It is striking that out of these 22 highly productive operations, 18 are in Ireland, Luxembourg and Malta (7, 7 and 4, respectively). Although bank staff working in the three countries constitutes less than 1 per cent of all employees in our sample of banks, over 5 per cent of all profits are created there.

Combined employees and profits in Ireland, Malta and Luxembourg between 2015 and 2019. Includes all sampled banks active in these jurisdictions:

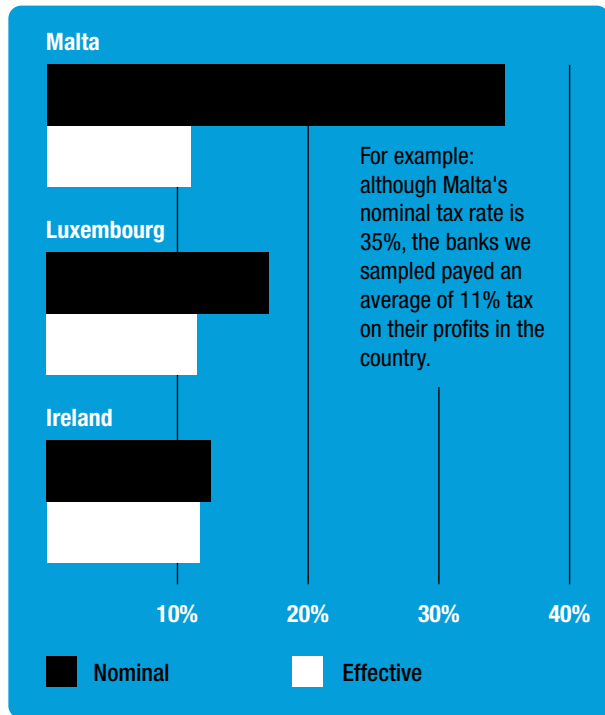


Luxembourg

In 2014, the LuxLeaks revelations partially lifted the veil that shrouds the Luxembourg tax business in secrecy and made it painfully obvious how deeply intertwined the public and private sectors can be when it comes to tax avoidance. Tax deals with large multinationals, secretly tailored by accounting firms often in collaboration with Luxembourg's highest financial authorities, are essentially one of the reasons for the country's status as the Member State with the highest Gross Domestic Product (GDP) per capita.

Although the leak resulted in a large scandal, evidence³⁴ has shown that the amount of 'sweetheart deals' – or tax rulings – in the country actually increased in the period after the leaks. The country-by-country disclosures of European banks seem to confirm both the magnitude of profit shifting in Luxembourg as well as its sustained trend after 2015.

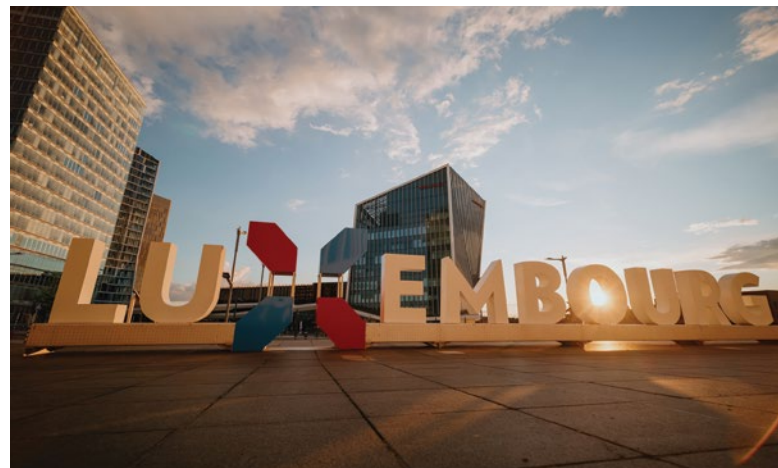
Discrepancy between nominal and average effective tax rates in 2019:



The total effective tax rate paid by banks on their profits in the country has been falling consistently from 2015 (17.28 per cent) to 2019 when it reached its lowest point to date at 11.2 per cent.

Looking at all operations of the 39 banks throughout all the reporting years, some of the highest productivity ratio, meaning the volume of profits generated per average worker in a bank's subsidiary, was registered in Luxembourg in 2019. **Barclays' local branch**, with a workforce of 47, created an unbelievable €780 million in profits. Similar figures were reported by the bank in other years. On average, the productivity of a Barclays' employee in Luxembourg amounts to €13 million per year, making the branch the most productive across all the data analysed.

To put the figure into perspective, if all Barclays' employees in the United Kingdom had the same 'work spirit' as their counterparts in Luxembourg, Barclays would have earned €3.154 billion over these five years in the UK only, instead of its actual €1.22 billion. Despite raising hundreds of millions of euros of profits in the jurisdiction every single year, the most Barclays ever paid in corporate income tax, according to the CBCR data, was €11 million

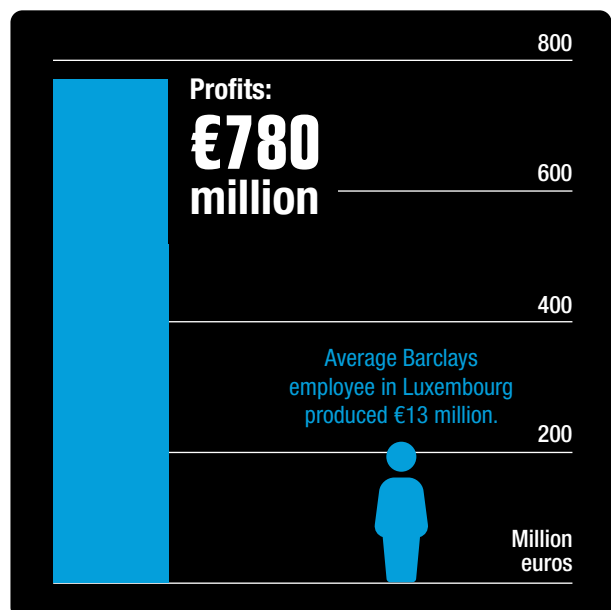


Luxembourg / Photo by Cedric Letsch via Unsplash

in 2016. During the remaining years, the bank paid either nothing or as little as €1 million.

Another indicator of potential profit mismatch is the profitability ratio – the profits made by a bank in comparison to its turnover in the same jurisdiction. **Deutsche Bank**, which figured among those revealed in the LuxLeaks scandal, was the bank with the highest reported profit volumes in Luxembourg. One of the largest German banks secured a profit of over 74 cents for each euro earned from 2015-2017, when its annual profits never fell below €1.1 billion. In 2019, when both **Banca Intesa Sanpaolo and Barclays** declared earning some of their largest profits in the country

Barclays' 2019 profits and taxes in Luxembourg:



(€855.7 million and €780.8 million respectively), their profitability was even higher – over 90 cents for each euro. These are impressive results, given that Barclays’ average profit ratio over the years equals only 18.6 cents and Intesa’s stands at 36.8 cents.

Malta

Low profitability does not seem to be a problem in Malta either. As the total average profit ratio of banks’ operations on the island amounts to almost 70 per cent according to CBCR disclosures, Malta holds the rank of the second most profitable European country.³⁵ This might be a surprising result if only looking at the nominal corporate tax rate – why would banks prefer to declare above-average volumes of profits in a country where they have to pay 35 per cent of their profits in taxes? All becomes clear when investigating the actual banks’ financial data in the region. From 2015-2019, banks paid a total effective corporate tax rate of only 9 per cent on their profits in Malta – almost four times lower than Malta’s official tax rate.

One of the major beneficiaries of Malta’s convenient tax environment has been the Spanish bank **BBVA**. With fewer than 15 employees working in its Maltese branch, the bank reported over €100 million in profits every reporting year except for 2016. Of its total profits of €440 million over the 2016-2019 period, BBVA paid only €26 million in income tax – an effective tax rate of less than 6 per cent.

Comparable profit volumes and even better tax deals were booked in Malta by **Deutsche Bank**. The German bank made a €418 million profit between 2015 and 2019, on which it paid a total effective tax rate of 4.5 per cent. That is almost eight times less than the nominal corporate income tax rate in the country. What renders these figures even more dubious is the fact that the bank also disclosed that its Maltese branch did not employ a single employee after 2015.

Ireland

Home to the European headquarters of some of the world’s largest corporations like Apple and Google, Ireland has a long-standing reputation as the unofficial European tax haven. A favourable tax climate, intensive inflow of capital and the activity of



Maltese street / Photo by Jari Hytonen via Unsplash

multinationals bring Ireland to the forefront of global labour productivity rankings.

Misalignment between the volume of profits declared in Ireland and real economic activity is glaringly apparent from the CBCR data analysis. Profits of the 39 European banks in Austria in 2018 were €1.348 billion, smaller than the €1.491 billion made in Ireland, despite the headcount of their staff in Austria being five times larger than the Irish one.

The most productive workforce in Ireland was reported by **Banco Santander**. In 2019, its Irish subsidiary with only three employees managed to create €52 million in profit. Since Banco Santander also managed to avoid paying any corporate tax on these profits, each worker of this subsidiary generated a staggering net profit of €17 million for the Spanish bank that year.

Banco Santander is not the only bank whose employees in Ireland showcase an outstanding productivity record. Each member of the **Belfius**

staff in Ireland raised almost €11 million in profits in 2017. Just like Santander, Belfius did not pay a single cent in corporate income tax on these earnings.

However, the most economically active of all banks in Ireland has been **Intesa Sanpaolo**. Again, the productivity of its employees in the jurisdiction is notable. For profits worth over €420 million each year, the bank needed only an average of 155 employees annually. For comparison, its operations in Croatia or Slovakia required more than 4,000 employees on average to earn profits that never exceeded €350 million, considerably lower than profits made in Ireland.

5.5 TAX PLANNING STRATEGIES AND THEIR RESONANCE FOR THE EU

The country-by-country disclosures show anecdotal evidence potentially pointing to some substantial tax avoidance behaviour by a number of EU banks, but the data also demonstrates that maintaining competitiveness in the banking industry while paying taxes fairly is possible.

Barclays reported having earned profits taxed at zero per cent in 31 cases between 2015-2019 (in 2019 alone, it had a zero per cent tax rate on over 48 per cent of its total annual profits), and **UniCredit** paid a total effective tax rate of mere 8.2 per cent on all of its profits over the period. By comparison, the disclosures by **Nordea Group**, **Belfius** and **Bankia** suggest no notable signs of profit shifting. All three banks declared consistent and moderate profit ratios across all of their operations and their corporate tax expenses align with the nominal tax rates in the countries where they have been active.

Contrasts between what different banks paid in taxes are stark – for instance in 2016, **Commerzbank** paid an effective tax rate of 50.4 per cent whereas **BMPS** paid only 1.61 per cent.

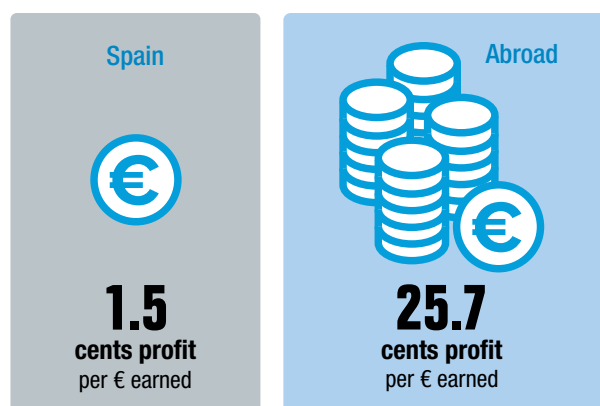
The CBCR disclosures represent only a limited glimpse into the world of banks' financial flows, and by no means encompass the full complexity of tax

accounting. The fact that legislation requires banks only to disclose the net figure of corporate income tax paid that year makes it impossible to know if the amount paid included any deferred tax from previous years – either tax credit or tax expense.

What could appear as a case of tax avoidance if only looking at figures in one year of accounting can suddenly become a legitimate tax expense once we see the tax flows in previous financial years. For this reason, the findings of our research should not be interpreted as absolute proof of who pays enough and who pays too little in the European banking industry, but rather as a guide to tax planning patterns in the sector during the past five years.

Some of these patterns emerge when focusing on banks' behaviour in their headquarter countries. Differences between how much some banks declare in profits in the country of their headquarters and the rest of their operations can be shocking. The Spanish banks in our sample, **Banco Santander**, **Bankia**, **BBVA** and **Banco de Sabadell**, all reported a total profit ratio of only 1.47 per cent for their activity in Spain, whereas their average profitability in all countries of operation exceeds 25 per cent.

Spanish banks' average profits in Spain and abroad:



In other words, Spanish banks profit less than 1.5 cents for each euro earned in Spain, but almost 18 times more for each euro earned across all jurisdictions they operate in – 25.7 cents. This gap between profits booked 'at home' and elsewhere has been steadily present during all reporting years. A similar trend can be observed in the activity of British banks. The most astonishing case is that of

HSBC in 2018. The bank reportedly profited only 3 cents from each euro earned in its home country, the United Kingdom, which is 10 times less than the bank's average in all of its 61 countries of operation.

The dimension of unfairness of diverting money away from a bank's headquarter country is threefold. It is not fair towards citizens whose income tax is often at a higher rate than the one of large corporations. It is not fair towards small businesses whose options for receiving tax reductions are smaller than those of large corporations, which essentially puts them at a competitive disadvantage even though they equally create jobs and value for the economy. Lastly, it is not fair towards the state and its citizens who have built the infrastructure, human capital and favourable environment for a multinational bank to successfully grow and achieve its international position in the first place.

This argument resonates more than ever. The economic crisis brought about by the current Covid-19 pandemic has forced some governments to double their budget deficits.³⁶ As countries in the EU and beyond are pouring money into their welfare systems and internal markets to avoid economic collapse, it is paramount to ensure that these funds are directed fairly. Do corporations that keep their profits in offshore accounts and pay the absolute minimum in taxes deserve to receive even more tax relief?

Our research shows that it only takes one tax planning department for a multinational firm to reshuffle its profits so the money earned in Italy or Germany appears under the accounts of Malta or Saudi Arabia. Subsidising large corporations without any regard for their tax behaviour and structure might easily end up as an investment that

will never contribute to the country whose taxpayer pays their bills.

There are clear winners of the current regulatory and legislative status quo. But where there are winners, there are also losers. The windfall income generated by multinational companies and their tax haven hosts from this corporate tax avoidance model is mirrored by the losses inflicted on countries where banks avoid paying their fair share. The Tax Justice Network revealed earlier this year that money diverted to Luxembourg, Netherlands, Switzerland and the UK cost the EU around €24 billion a year,³⁷ while Germany, France, Italy and Spain are the ones losing out the most. Banks' own disclosures support this finding.

Alongside Austria, these four Member States are the ones with the lowest profitability, that is, the amount of money profited on each euro earned in turnover. In Italy, banks have profited only an average of 10 cents from each euro earned in the jurisdiction throughout the years. In Spain, it has been less than 6 cents. In contrast, all banks operating in Luxembourg have profited an average of 60.5 cents, and banks in Malta have profited 68.9 cents.

Austria, Germany, France, Italy and Spain are also the only EU Member States where European banks have reported lower profitability during 2015-2019 than the global average – 24 cents for each euro earned in turnover. The amount of money leaking out of the national budgets of Member States due to tax avoidance is enormous, with estimates at between €50 and €190 billion in 2015.³⁸ In a world hit by the current healthcare crisis where tens of thousands of people in the EU are losing their jobs and financial security, this money is needed now more than ever.

6. CONCLUSIONS AND RECOMMENDATIONS

This research generates new evidence about the activities and tax affairs of some of the largest EU-based banks by making use of their financial country-by-country reports published between 2015-2019. This report aims to provide an assessment of recognisable trends by analysing the data from the existing CBCR legislation for the banking sector, as visualised in TI EU's Corporate Tax Tracker. It also assesses the gaps in both the legislation itself and its implementation by banks, highlighting the main challenges encountered during the data research and analysis.

The new transparency requirements for banks have undoubtedly increased the data available to citizens in order to hold banks to account for their tax-related information and payments, which were entirely secret until a few years ago.

As a result of this increased transparency, our analysis highlights multiple discrepancies and red flags in the disclosure by large European banks that feature on our online platform. These include operations where the banks pay taxes below the nominal tax rate of that jurisdiction, bank operations that generate huge profits with a very limited number of employees, or bank operations that generate very high profits compared to their turnover.

OUR RESEARCH AND ANALYSIS REVEALED THE FOLLOWING KEY FINDINGS AND TRENDS IN BANKS' BEHAVIOUR:

- 1. At least 31 out of 39 banks routinely have operations in countries with favourable tax deals and in zero-tax jurisdictions – 11 per cent of banks' global operations during the reporting years were effectively tax-free.**
- 2. At least 29 out of 39 banks declare high profits in jurisdictions where they do not employ anyone, suggesting widespread profit shifting. Malta holds the top spot for 'ghost operations' in Europe.**
- 3. At least 15 out of 39 banks receive significant tax relief in several African and Middle Eastern countries. The top three are Mauritius, Saudi Arabia and the United Arab Emirates.**
- 4. At least 32 out of 39 banks have substantial operations in low-tax EU Member States. Ireland, Luxembourg and Malta are the most lucrative locations.**
- 5. At least 10 out of 39 banks declare, on average, profits that reveal shocking differences between their headquarter countries and the rest of their operations. For instance, the profits of Spanish banks abroad are 18 times higher than in their home country.**

FURTHER FINDINGS:

Despite increased transparency due to the current legislative requirements, our report also reveals the limits of analysing banks' financial disclosures at the country level, as well as discrepancies in the way banks report on this information. A number of weaknesses exist both in the legislation itself and in banks' implementation practice. These weaknesses threaten the overall objective of the legislation of enhancing public understanding of European banks' financial data and tax payments.

► Accessibility of the reports

The Capital Requirement Directive IV (CRD IV) does not require that the banks' reports are published in a central repository. The information is not required to be published in any particular format, and is seldom presented as machine-readable open data. Banks usually publish their reports only in PDF format on their own websites. This has been a challenge with regard to locating the reports and has proven to be complex and time-consuming. Meaningful transparency can only be achieved through accessible and comparable data.

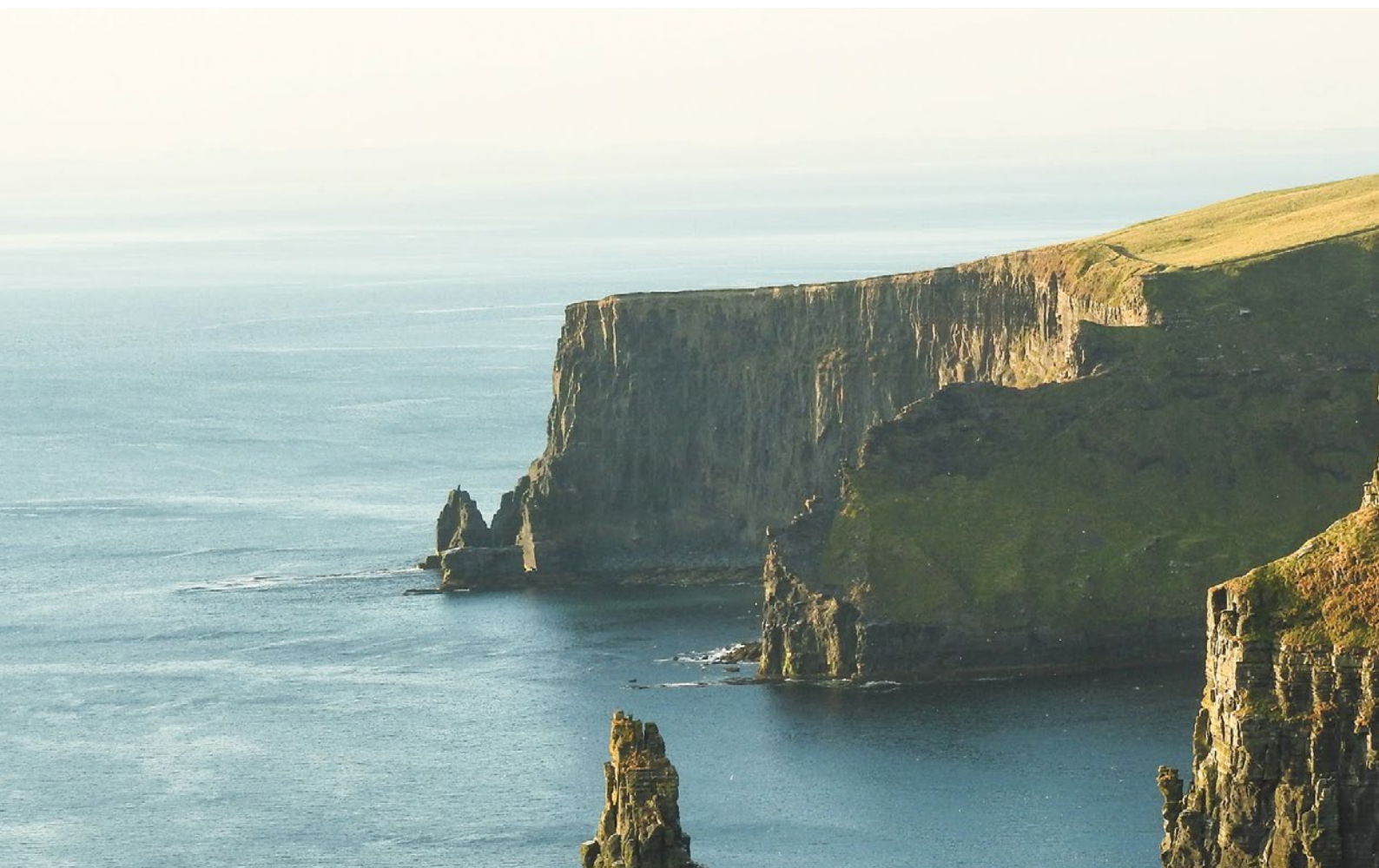
► Banks' reporting of current vs. deferred taxes

The EU Directive only requires banks to publish figures of the tax paid in a given year in each jurisdiction of operation. By analysing the data, however, it becomes clear that understanding a bank's tax behaviour requires more historic context than a simple annual tax expense figure can provide. This kind of reporting makes it impossible to know whether or not the amount paid included any deferred tax from previous years – either tax credit or tax expense. What might appear to be a case of tax avoidance based on figures for only one year of accounting can suddenly become a legitimate tax expense once we see the tax flows in previous financial years.

► Reporting anomalies

A number of banks did not properly break down their financial information for each jurisdiction of operation, despite this being a requirement of the Directive. Instead of disclosing the full list of their jurisdictions with the corresponding financial results, some of these banks include a footnote or a disclaimer next to the report simply stating that some of the reported profits include money from other non-listed jurisdictions.

Irish coast / Photo by Henrique Craveiro via Unsplash



This practice compromises the integrity of the data and hence the purpose of country-by-country reporting, as the financial activity of misreporting banks is not disclosed fully. Such information included in the footnotes is difficult to spot and rarely contains any figures, making it easy for a reader to overlook a bank's presence in the Cayman Islands or Singapore, and even rendering it impossible to quantify the size of those operations.

This report shines a light on the crucial issues of tax base erosion and tax collection, particularly during the current global healthcare crisis. Europe is going through its greatest crisis since World War II, with the Covid-19 pandemic affecting every EU Member State at the time of writing. According to our research, five EU Member States reportedly have the lowest profitability of banks' operations out of the whole sample we analysed, meaning the amount of money profited on each euro earned in turnover. These countries are **Austria, Germany, France, Italy and Spain**.

During 2015-2019, European banks have reported lower profitability than the global average there: 24 cents per each euro earned in turnover. For instance, in Italy, banks have profited only an average of 10 cents from each euro earned in the jurisdiction over the years. In Spain, it has been even less than 6 cents. In contrast, all banks operating in Luxembourg have made an average profit of 60.5 cents, and banks in Malta have made 68.9 cents profit on each euro earned.

Some of these countries, such as Spain or Italy, have also been among the hardest hit in the world by the Covid-19 crisis. This vividly illustrates the consequences of cutting funds for public healthcare services, which they could be legitimately expecting in the form of taxes from large corporations.

Transparency is the first step in ensuring that taxes are paid where they are due and to provide adequate revenue for critical public services. Increased transparency in corporate tax issues is long overdue. Full public CBCR for multinationals from all sectors is one simple measure the EU could adopt.

Despite the enormous loss of public revenue due to tax avoidance and profit shifting in the EU,³⁹ some Member States consistently oppose this crucial legislation and, consequently, make it easier for big companies to hide what they pay in tax. Currently, an ongoing legislative process aimed at extending public CBCR requirements from the CRD IV to large multinationals from all other sectors is stuck in the EU Council.

RECOMMENDATIONS

To improve CRD IV requirements and close existing legislative gaps, the European Commission must:

- ▶ Require publication of banks' country-by-country reports directly to a freely accessible central online repository, hosted and maintained by the European Commission.
- ▶ Require banks to publish their reports in open, machine-readable data format.
- ▶ Clarify that banks are required to break down what they paid in corporate income tax in the reporting year into an entry for both the current and the deferred tax on income.
- ▶ Require banks to publish narrative explanations of their country-by-country data, including the history and evolution of their presence in the countries concerned, existing partnerships and joint ventures, and details of their activities and functions for a better understanding of the financial disclosures.
- ▶ Require banks to be fully transparent about their organisational structure by publishing details of all fully consolidated subsidiaries, branches and joint ventures as well as their shares in these entities.
- ▶ Urge Member States to enforce the legislation by ensuring that banks report correctly without combining data from operations in different jurisdictions into a single figure.



The EU Council of Ministers must urgently:

- ▶ Adopt its negotiating position ('General Approach') and begin negotiations with the European Parliament on the proposed public country-by-country reporting legislation for multinationals from all sectors that is still awaiting approval. Requiring multinational companies to disclose tax payments and financial data on a country-by-country basis would reveal where they are making profit and paying (or not paying) taxes.
- ▶ Start discussions on further harmonisation of EU corporate taxation rules with a view to strengthening the fight against tax avoidance and preventing further erosion of the tax base.

- ▶ Ensure that companies receiving Covid-19 bailouts or tax relief meet a number of conditions with regard to their tax behaviour, including:
 - ▶ Explicitly committing to not making aggressive use of tax havens and to declaring their profits where economic activities take place.
 - ▶ Excluding those compromised by any financial or tax scandal, such as the LuxLeaks or the Paradise Papers, or that have been judged by the European Commission to have received illegal state aid.
 - ▶ Committing to full tax transparency and publishing country-by-country reports for all states in which they operate, in line with EU legislation such as the Capital Requirement IV Directive and Accounting Directive, if applicable, and with the Global Reporting Initiative standard.⁴⁰
 - ▶ Publishing the ultimate beneficial owners of the company, as well as those with significant control over it in all jurisdictions where it operates.
 - ▶ Disclosing their organisational structure by publishing all fully consolidated subsidiaries, affiliates, joint ventures and non-fully consolidated holdings, as well as the percentages owned in these entities.

ANNEX:

Detailed methodology

The data used in TI EU's Corporate Tax Tracker and this report is based on the requirements set out in the EU's Capital Requirement Directive IV (CRD IV). The ultimate objective of having this data in the public domain is to check whether companies' tax payments are aligned with their real economic activities.

After its second launch in October 2020, TI EU's Corporate Tax Tracker includes data published over five years of reporting (2015-2019) from 39 of the largest European banks. The data categories included in the online platform are the following: **turnover, number of employees, profit or loss before tax and tax on profit or loss.**

Additional data – e.g. the amount of assets – has been voluntarily published by some banks, but this has not been included on the website as it would not be comparable across all banks.

The platform and this report use four risk indicators to highlight discrepancies and potential red flags:⁴¹

- ▶ **productivity**
- ▶ **profitability**
- ▶ **discrepancies between nominal and effective tax rate**
- ▶ **productivity imbalance**

TI EU provided all banks analysed and mentioned in this report with the opportunity to review and comment on its dataset, statements and case studies. Out of 39 banks, 15 responded and engaged with TI EU's inquiry. When considered justified and/or relevant to the analysis made in this report, banks' responses were taken into account in the interpretation of the data. References to these exchanges as well as our assessment of

them are included in the endnotes. In the interest of transparency, we compiled all the responses we received from banks in an additional Annex, which is available on the TI EU website.

The first version of the Corporate Tax Tracker visualised data coming from the first country-by-country reports of the 20 largest European banks, which were published in 2015.⁴²

The second version of the platform extends the dataset from 20 to 39 banks and includes four additional reporting years (2016, 2017, 2018 and 2019). For the current update and additional data included on the website, we have used the annual average conversion rates by the European Central Bank.⁴³

The list of the 50 largest banks in Europe by total assets was published in May 2018 by the *Business Insider* based on research carried out by S&P Global Market Intelligence.⁴⁴ However, TI EU's Corporate Tax Tracker does not include all of the 50 largest banks in Europe due to different methodological reasons, which we explain below:

- ▶ **Credit Suisse Group AG, DNB ASA, JSC VTB Bank, PAO Sberbank of Russia, Raiffeisen Gruppe Switzerland, UBS Group AG, Zürcher Kantonalbank**

These banks are headquartered outside of the EU (Norway, Russia and Switzerland). They have significant operations through their subsidiaries in the EU and, according to the CRD IV, are required to develop and publish country-by-country reports for those subsidiaries. They are not required to do this for their operations in their headquarter countries or in third countries, which means that the information available for

these banks is not comprehensive enough for a comparison with EU banks. We have therefore decided to exclude this group of banks from our dataset. The **Norwegian bank DNB ASA** is currently the only bank among this group that voluntarily goes beyond the legislation's requirements and reports its financial data on a country-by-country basis for its operations in Norway and in third countries. The bank began this practice in 2017, so could not be included in this version of the Tax Tracker.

▶ **Caixa Bank, Cassa depositi e prestiti SpA, La Banque Postale**

These banks headquartered in Spain, Italy and France respectively do not fall under the scope of the CRD IV for different reasons and are, therefore, exempt from the CBCR requirements outlined in the Directive. Data for these banks is not available.

▶ **Banco BPM SpA and Dexia**

These banks fall under the scope of the legislation and publicly report country-by-country data. However, we encountered challenges during our data collection and analysis, as it appears that one or more of the reports published by these banks lack some of the required data. We contacted the banks between July and September 2019 seeking clarification on these issues, but have not received adequate responses.

The German bank **KfW IPEX** is a separate case. It was already included in the first version of our Corporate Tax Tracker, as it was also part of the dataset of the 20 largest European banks used by Oxfam for its report *Opening the Vaults*.⁴⁵ It no longer features among the 50 largest European banks according to the 2018 research by S&P Global Market Intelligence, which we based our methodology on. However, for continuity purposes we decided to keep this bank in the dataset for the years 2016-2019.

The 39 banks included in the Corporate Tax Tracker are:

Rank	Number on the dataset	Bank	Country of headquarter
1	1	HSBC Holdings Plc	UK
2	2	BNP Paribas SA	France
3	3	Crédit Agricole Group	France
4	4	Deutsche Bank AG	Germany
5	5	Banco Santander SA	Spain
6	6	Barclays Plc	UK
7	7	Société Générale SA	France
8	8	Groupe BPCE	France
9	9	Lloyds Banking Group Plc	UK
10	10	ING Groep NV	Netherlands
11	11	UniCredit SpA	Italy
12	12	Royal Bank of Scotland Group Plc	UK
13	13	Intesa Sanpaolo SpA	Italy
14	14	Crédit Mutuel Group	France
17	15	Banco Bilbao Vizcaya Argentaria SA	Spain
18	16	Rabobank	Netherlands
19	17	Nordea Group	Finland
20	18	Standard Chartered Plc	UK
21	19	DZ Bank AG	Germany
22	20	Danske Bank A/S	Denmark
23	21	Commerzbank AG	Germany
26	22	ABN AMRO Group NV	Netherlands
28	23	KBC Group NV	Belgium
29	24	Svenska Handelsbanken AB	Sweden
31	25	Nationwide Building Society	UK
32	26	Skandinaviska Enskilda Banken AB	Sweden
33	27	Landesbank Baden-Wuerttemberg	Germany
35	28	Swedbank AB	Sweden
36	29	Banco de Sabadell SA	Spain
37	30	Bankia SA (BFA Sociedad Tenedora de Acciones)	Spain
38	31	Erste Group Bank AG	Austria
39	32	Bayerische Landesbank	Germany
41	33	Nykredit AS	Denmark
44	34	Belfius Banque SA	Belgium
45	35	Norddeutsche Landesbank Girozentrale	Germany
47	36	Helaba	Germany
49	37	Banca Monte dei Paschi di Siena SpA	Italy
50	38	OP Financial Group	Finland
> 50	39	KfW IPEX	Germany

A few exceptions to the list above include the CBCR data of OP Financial Group in 2018, and 2019 data from HSBC Holdings.

OP Financial Group's data on its operations in Finland could not be found in the Group's reporting documents for the accounting years 2018 and 2019. From our correspondence with the bank it emerged that this is due to the way Finland has transposed the CRD IV into national legislation, which does not require Finnish banks to publish this financial information in relation to their domestic operations and only disclose it for their foreign operations. The Group consists of approximately 140 OP cooperative banks. However, all OP cooperative banks pay their corporate tax locally in their operating region in Finland. Only one bank included in the group - OP Corporate Bank plc - has branch offices outside Finland and has published country-by-country reporting data on them. Although OP Financial Group did provide the Finnish data when we contacted them, we have not included it in the research as it could not truly be considered publicly available. Further details on this are to be found in our separate *Annex: Correspondence with banks*, which is available on the [TI EU website](#).

HSBC Holdings did not have its CBCR report for 2019 published at the time of the second update of Corporate Tax Tracker, which was finalised in September 2020. As the Directive allows banks to publish their CBCR data for the accounting year 2019 up until 31 December 2020, the 2019 operations of this bank could not be included in the platform.

This does not cover the whole banking sector, although the banks selected do represent a significant part of it. Currently, the data is scattered throughout the banks' annual reports or other report formats and corporate websites, and is not collected in one single place. It is usually reported in PDF format instead of in machine-readable format, which makes it challenging to compare it with other data. This website

provides an easily accessible tool to visualise the data and compare the different banks.

The Corporate Tax Tracker also refers to banks' nominal tax rates. This data is based on KPMG's collection of nominal corporate tax rates of the respective years.

The aggregate figures for banks' overall economic activity account for intra-group consolidation, if applicable. Few exceptions to this are **Banco Santander (2015), Royal Bank of Scotland (2015, 2016) and Standard Chartered (2016)**, as their consolidated CBCR data were not available at the time of the newest Corporate Tax Tracker update. Instead of the consolidated values, the platform visualises their non-consolidated aggregate data for turnover, profits and taxes.

The Corporate Tax Tracker also highlights countries that have not met the EU's criteria related to tax transparency, fair taxation and the implementation of OECD BEPS (Base Erosion and Profit Shifting) measures. These countries have been included in the EU's list of non-cooperative jurisdictions for tax purposes, often dubbed as the EU list of tax havens, which is subject to change.⁴⁶ The list, adopted in December 2017, includes non-EU countries or territories that failed to make sufficient commitments in response to EU concerns on good tax governance. As this list has changed since its adoption, we will continue to monitor and update the jurisdictions. The EU list contains information of both non-cooperative jurisdictions – the so-called blacklist – and countries that have made specific commitments to implement tax good governance principles – the so-called 'grey list'.

However, we believe that this list is the result of a flawed and opaque political exercise and, by design, does not include EU Member States in its scope, despite extensive evidence showing how some of these countries play an important role in corporate tax avoidance.

ENDNOTES

- 1 Sources used for the drafting of the definitions used in this section include TI EU's position papers and Corporate Tax Tracker website, OECD terminology as well as Investopedia.com.
- 2 In the analysis we carried out for the development of the Corporate Tax Tracker website and for the purpose of this report, we drew upon KPMG's collection of annual nominal corporate tax rates for each country: <https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>
- 3 In 2016, the European Commission released a legislative proposal on public CBCR for multinational corporations (*Disclosure of income tax information by certain undertakings and branches*). In July 2017, the European Parliament adopted its position on the draft proposal in plenary. In the past years, the Council of EU Member States has discussed its proposed amendments to the Directive. A lack of consensus between EU Member States about the European Commission's proposed rules and disagreements about the legal basis of the legislative proposal have delayed the adoption of a 'general approach', or a final negotiating position that would allow the commencement of trilogue negotiations with the European Parliament and the Commission. The negotiations are currently stalled. The blocking countries appear to be Croatia, Cyprus, Czech Republic, Estonia, Germany, Hungary, Ireland, Latvia, Luxembourg, Malta, Slovenia and Sweden. For more details on this legislative process, please see: <http://transparency.eu/wp-content/uploads/2020/05/From-tax-secrecy-to-tax-transparency.pdf>
- 4 Transparency International EU, *New EU proposal on corporate tax is transparency only in name*, April 2016: <https://transparency.eu/new-eu-proposal-on-corporate-tax-is-transparency-only-in-name/>
- 5 Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32013L0036>
- 6 LuxLeaks is the name of a financial scandal revealed in November 2014 by the International Consortium of Investigative Journalists (ICIJ). It is based on confidential information about Luxembourg's tax rulings set up by PricewaterhouseCoopers from 2002 to 2010 to the benefit of its clients. This investigation resulted in making available to the public tax rulings for over 300 multinational companies based in Luxembourg. The Paradise Papers are a set of 13.4 million confidential documents relating to offshore investments. Some of the details were made public in November 2017 by the ICIJ. The documents originate from the legal firm Appleby and contain the names of more than 120,000 people and companies. More information on the two investigations can be found at www.icij.org/investigations/luxembourg-leaks/ and www.icij.org/investigations/paradise-papers/.
- 7 Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32013L0036>
- 8 Transparency International EU, *Corporate Tax Tracker* (2018): <http://taxtracker.eu/>.
- 9 The Corporate Tax Tracker also includes British banks, as both the first pilot and the subsequent update were developed before 31 January 2020 when the UK was still a Member State of the EU. Currently, British banks are still subject to the EU legislation requiring them to publish country-by-country reports.
- 10 A more detailed explanation of these risk indicators is included in the Glossary section of this report and on the website of the Corporate Tax Tracker itself: <http://taxtracker.eu/>.
- 11 In their reports, most banks include a line called 'others' among the list of countries in which they operate. They do so for those jurisdictions where their individual profit per jurisdiction was below a certain threshold. Only a few banks included footnotes in their reports listing the countries they lumped together in that group. We have pointed out this incorrect way of reporting in the 'Reporting anomalies' box. For the purpose of our analysis and this report, however, we had no way of knowing whether zero-tax jurisdictions or countries that offer banks favourable tax deals were included among the 'others'. Therefore, the actual figure may be higher than 31 out of 39.
- 12 This figure only includes banks that reported 0 employees and high profits over the five-year period. However, our dataset also includes banks that report having 0 employees and negative profits, and banks that report a very low number of employees (e.g. 2 or 3) and high profits. These categories have not been included in the figure 29.
- 13 This finding only includes banks with operations in the countries we selected for our analysis – Mauritius, Saudi Arabia and the United Arab Emirates, as well as the case of Cr dit Mutuel's operations in Morocco and Tunisia included in this report. Hence, this finding is not representative of all banks' operations in Africa and the Middle East, but only of the selected countries we looked at in detail.
- 14 This finding includes banks' operations in Cyprus, Ireland, Luxembourg, the Netherlands and Malta.
- 15 Tax Justice Network, *Corporate Tax Haven Index 2019*, 2019: www.globaltaxjustice.org/en/latest/corporate-tax-haven-index-2019.

- 16 Two of these banks responded to us with regard to this statement. Their comments on this issue are all included in our *Annex: Correspondence with banks*, which is available on the TI EU website. In particular, Standard Chartered explained that they have a small number of entities that are not incorporated in the same jurisdiction as where they are managed and controlled. For these entities, their jurisdiction of operation is where they are managed and controlled and that is where they disclose their financial results. Their tax status in the jurisdiction where they are managed or controlled is no different to that of a locally incorporated entity carrying out the same activity. In our view not reporting on smaller entities controlled by subsidiaries of the same group located in other jurisdictions is against the spirit of the law. Another bank, Société Générale, explained that the purpose of their accompanying footnotes is to provide additional information on certain jurisdictions for which income is taxed abroad and on accounting standards applying to shared services centers. Those explanations are voluntarily provided to better understand and interpret the information displayed in those jurisdictions. In our view, this is a matter of interpretation and our preference would still be for banks to fully disclose all jurisdictions of operation and the accompanying financial data in the main country-by-country report.
- 17 Source: KPMG, Corporate tax rates table: <https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>.
- 18 A similar trend has been also documented by other sources, i.e. article in the journal *Accounting Today* (15 November 2018): www.accountingtoday.com/articles/corporate-america-flees-zero-tax-caribbean-havens-like-the-cayman-islands-and-bahama-after-tax-avoidance-crackdown.
- 19 The top 10 jurisdictions included in the Corporate Tax Haven Index are (in order of ranking): British Virgin Islands, Bermuda, Cayman Islands, the Netherlands, Switzerland, Luxembourg, Jersey, Singapore, Bahamas, Hong Kong.
- 20 Tax Justice Network, *Corporate Tax Haven Index 2019* (2019): www.globaltaxjustice.org/en/latest/corporate-tax-haven-index-2019; Tax Justice Network, *Financial Secrecy Index 2020* (2020): www.taxjustice.net/2020/02/18/financial-secrecy-index-2020-reports-progress-on-global-transparency-but-backsliding-from-us-cayman-and-uk-prompts-call-for-sanctions/.
- 21 Calculated at European Central Bank annual average US\$/€ exchange rate for 2019.
- 22 Banco Santander, BNP Paribas, Crédit Agricole Group, DZ Bank, Groupe BPCE, Royal Bank of Scotland, Standard Chartered and UniCredit.
- 23 These are BBVA, Banco Santander, Deutsche Bank, DZ Bank and UniCredit.
- 24 In our correspondence with UniCredit, the Italian bank clarified that of the 1.6 billion Euros profits earned by the bank in jurisdictions without employees, 98% is attributable to a joint venture that it held in Turkey between 2015 and 2019. Further details are included in a separate annex, which can be found on the TI EU website, *Annex: Correspondence with banks*. This is one of the cases included in this report (like the HSBC case referred to in endnote 25) that demonstrate the importance of improved organisational transparency and the need for additional narrative contextual explanations to complement country-by-country data.
- 25 In our correspondence with HSBC regarding its operations in Saudi Arabia and the high profits it recorded there despite not having any employees in the jurisdiction, the bank provided detailed comments on its structure. According to HSBC's explanation, its activities in Saudi Arabia are via joint ventures. Further details are included in the separate *Annex: Correspondence with banks*, which can be found on the TI EU website. This is one of several cases included in this report, which demonstrates the importance of improved organisational transparency and the need for additional narrative contextual explanations to complement country-by-country data. The UniCredit case referred to in footnote 24 also highlights this need.
- 26 The list further includes Albania, Estonia, Latvia, Lithuania, Moldova, Macedonia and Montenegro.
- 27 The French bank provided very detailed feedback on both its 'ghost operations' and the tax rate of 2.3% applicable to these operations. All information is included in a separate *Annex: Correspondence with banks*, which is available on the TI EU website.
- 28 The Mauritius Leaks was an investigation by the ICIJ revealed in July 2019, which highlighted tax avoidance practices of multinational companies making use of the island's tax treaties to avert their tax obligations in countries in Africa, Asia and elsewhere. More information on this investigation can be found at www.icij.org/investigations/mauritius-leaks/.
- 29 BNP Paribas, Deutsche Bank, HSBC Holdings, Royal Bank of Scotland and Standard Chartered.
- 30 OECD, GDP per hour worked: <https://data.oecd.org/lprdy/gdp-per-hour-worked.htm>.
- 31 These are ABN AMRO Group, Barclays, BNP Paribas, Crédit Agricole Group, Deutsche Bank, Groupe BPCE, HSBC Holding, ING Groep, Intesa Sanpaolo, Rabobank, Royal Bank of Scotland Group, Société Générale, Standard Chartered and UniCredit.
- 32 In our correspondence with the French bank, BPCE Group provided further information on its presence in the UAE. Details are included in a separate *Annex: Correspondence with banks*, which can be found on the TI EU website.
- 33 Tax Justice Network, *Corporate Tax Haven Index 2019* (2019): www.globaltaxjustice.org/en/latest/corporate-tax-haven-index-2019.
- 34 The number of 'sweetheart deals' to multinationals increased by 50 per cent in the year following the scandal. Eurodad, *Survival of the richest: Europe's role in supporting an unjust global system 2016* (2016): www.eurodad.org/Entries/view/1546667/2016/12/06/Survival-of-the-richest-Europe-s-role-in-supporting-an-unjust-global-tax-system-2016
- 35 Cyprus ranks first, but the volume of economic activity declared in the jurisdiction is negligible in comparison with other countries to be included in the analysis.

- 36 For instance, Belgium, France, Germany, Italy, Portugal and Spain, among others. For more details, see Bruegel, *The fiscal response to the economic fallout from the coronavirus (2020)* www.bruegel.org/publications/datasets/covid-national-dataset/ and European Central Bank, *The COVID-19 crisis and its implications for fiscal policies (2020)*: www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202004_07~145cc90654.en.html.
- 37 Tax Justice Network, *The axis of tax avoidance (2020)*: www.taxjustice.net/wp-content/uploads/2020/04/The-axis-of-tax-avoidance-Tax-Justice-Network-April-2020-1.pdf; calculated at ECB annual average exchange rate US\$/€ for 2017.
- 38 In 2015, a European Parliament study (see [www.europarl.europa.eu/RegData/etudes/STUD/2016/558776/EPRS_STU\(2016\)558776_EN.pdf#page=8](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/558776/EPRS_STU(2016)558776_EN.pdf#page=8)) estimated that revenue losses caused by aggressive corporate tax planning in the EU ranged from €50-70 billion to €160-190 billion. According to Gabriel Zucman's 2018 figures <https://gabriel-zucman.eu/files/TWZ2018.pdf>, corporate tax avoidance via six EU Member States (Belgium, Cyprus, Ireland, Luxembourg, Malta and the Netherlands) results in a loss of € 42.8 billion in tax revenue in the other 22 Member States (these figures were published before Brexit when the EU still included 28 Member States). According to this evidence, profit shifting reduces the EU's corporate tax revenue by approximately 20 per cent annually.
- 39 Torslov, Wier, Zucman, *The Missing Profits of Nations*, NBER Working Paper 24701, 2018: <https://gabriel-zucman.eu/files/TWZ2018.pdf>.
- 40 In 2017, the Global Reporting Initiative, an independent standard-setting body, initiated a project to develop new corporate disclosures related to tax. In September 2019, the new standard – *GRI 207: Tax 2019* – was approved. More information may be found here: <https://www.globalreporting.org/standards/work-program-and-standards-review/development-of-gri-207-tax-2019/>.
- 41 A more detailed explanation of these risk indicators is included in the Glossary section of this report and on the website of the Corporate Tax Tracker itself: <http://taxtracker.eu/>.
- 42 The data was originally collected by Oxfam for its 2017 report *Opening the Vaults: The use of tax havens by Europe's biggest banks*: <https://www.oxfam.org/en/research/opening-vaults>. For more information on the initial methodology and data collection carried out for the first version of the Corporate Tax Tracker, please refer to Appendix 1 of the Oxfam report. It provides the definitions, methodology used for data collection and calculation as well as data inconsistencies. For instance, as the currency of the reports varies slightly, the data has been converted to euros for easier comparability. Oxfam used the average exchange rate of 2015 for the conversion.
- 43 Source: European Central Bank annual averages: www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-usd.en.html. These conversion rates were used by the Charles University in Prague for the CBCR data collection carried out for Professor Petr Jansky's study *European Banks and Tax Havens: Evidence from Country-by-Country Reporting*.
- 44 The full list of the 50 largest European banks is accessible at the following link (July 2020): <https://www.businessinsider.com/largest-banks-europe-list?r=US&IR=T>.
- 45 Oxfam, *Opening the Vaults: The use of tax havens by Europe's biggest banks (2017)*: <https://www.oxfam.org/en/research/opening-vaults>.
- 46 At the time of writing, the following countries are part of the EU's list of non-cooperative jurisdictions: American Samoa, Cayman Islands, Fiji, Guam, Oman, Palau, Panama, Samoa, Trinidad and Tobago, US Virgin Islands, Vanuatu, Seychelles. The updated list may be found here: <https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/>.

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