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# Discussion paper

## **INTERNATIONAL TAXATION AND CROSS-BORDER BANKING**

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# **International Taxation and Cross-Border Banking<sup>1</sup>**

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**Abstract:** This paper examines empirically how international taxation affects the volume and pricing of cross-border banking activities for a sample of banks in 38 countries over the 1998-2008 - period. Home country corporate income taxation of foreign-source bank income is found to reduce banking-sector FDI. Furthermore, such taxation is almost fully passed on into higher interest margins charged abroad. These results imply that international double taxation distorts the activities of international banks, and that the incidence of international double taxation of banks is on bank customers in the foreign subsidiary country. Our analysis informs the debate about additional taxation of the financial sector that has emerged in the wake of the recent financial crisis.

**Key words:** Cross-border banking, International taxation, Interest margins

**JEL Classification:** G21, F23, H25

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<sup>1</sup> We thank Ata Can Bertay for research assistance.

## 1. Introduction

The international tax system tends to discriminate against foreign-owned banks. Specifically, domestic banks are just subject to a local corporate income tax on domestic income, while foreign-owned banks in addition may be subject to non-resident dividend withholding tax in the subsidiary country and corporate income tax on repatriated dividends in the parent country. International double taxation potentially puts international banks at a competitive disadvantage, with implications for the performance as well as the structure of the international banking market.<sup>2</sup> This paper examines empirically the impact of international taxation on bank interest margins and pre-tax profitability as indices of banking-sector performance. Furthermore, we investigate how international taxation affects banking FDI in terms of foreign-bank assets and numbers, as measures of banking-sector structure.

Our study of the international taxation of banking offers insights that are interesting from two main perspectives. First, in the aftermath of the financial crisis of 2008-2009, many countries are thinking of new taxes on their financial systems to help prevent a next crisis and also to raise the overall tax contribution of the financial sector. A main new tax being considered is the Financial Activities Tax, which is a tax on a bank's combined profits and wage bill (see IMF, 2010). In a recent communication, the European Commission (2010) has announced that it is conducting an impact assessment study of the Financial Activities Tax (among other financial taxes), which is potentially followed by a proposal for a European directive to coordinate such taxation in the EU. Our analysis of international income taxation as applied to the banking sector informs about the likely incidence and dislocation effects of a Financial Activities Tax, given that the latter tax also is a tax on income derived from the financial sector. More directly, we gain insight into the impact of the corporate income tax when some firms in a country are subject to a differentially high level of tax – due to international double taxation.

A second reason for studying the international double taxation of banking is that it constitutes a barrier to further banking market integration. Regulatory barriers to international banking have been reduced worldwide, but the drive at banking market unification has so far stopped short of eliminating the international double taxation of banking income. This

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<sup>2</sup> International expansion only makes sense for a bank if this provides benefits that exceed the cost of international double taxation. These benefits potentially include being able to serve internationally active customers, diversification gains, economies of scale, access to agglomeration benefits in international financial centers, and international regulatory arbitrage. See McCauley, McGuire and von Goetz (2010), Claessens and Van Horen (2009), and Committee on the Global Financial System (2010).

potentially explains why many countries' banking markets remain dominated by national banks, even if many banking markets have become more international, as measured by the external assets and liabilities of domestic banks as well as the ownership of banks.<sup>3</sup>

Our empirical analysis of the impact of international taxation on banks is based on a sample of individual banks in 38 countries during the 1998-2008 period. We estimate that bank interest margins almost fully reflect the additional international taxation of dividends paid by foreign subsidiaries. The incidence of international taxation thus appears to be on a bank's lending and depositor customers. However, we do not find that a bank's pre-tax profitability is materially affected by international double taxation of dividend income for our worldwide sample of banks. This may reflect that higher international taxation also triggers more outward profit shifting.

Using a gravity model approach, we investigate the impact of international double taxation on banking FDI on a bilateral aggregated basis. We find evidence that international double taxation of dividend income reduces discourages-sector FDI in terms of foreign-bank assets. In addition, we find that foreign-bank numbers are significantly reduced by international double taxation. The decline of the assets of foreign subsidiaries following international double taxation of dividends is consistent with higher interest margins achieved by foreign subsidiaries.

Banks located in the European Union are subject to common minimum bank regulatory standards and they face no regulatory barriers of entry into other EU countries.<sup>4</sup> Thus, the sample of EU banks – as foreign subsidiaries and as parent banks – is an interesting one to test for the impact of international taxation on bank interest margins and profitability. For the sample of EU banks, we find a significant pass-through of the international taxation of dividend income into higher interest margins and pre-tax profitability. The more pronounced impact of international taxation on profitability in the EU may reflect more limited international profit shifting, or alternatively a stronger negative supply response by foreign subsidiaries on account of international double taxation so as to maintain post-tax profitability. We indeed find some evidence that banking-sector FDI inside the EU is relatively responsive to international double taxation.

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<sup>3</sup> See Lane (2010, Table 17) for information on the development of cross-border banking in Europe as measured by the external assets and liabilities relative to domestic loans of domestic banks. For many European countries, external bank assets exceed domestic loans.

<sup>4</sup> The European Union's Second Banking Directive of 1989 allows EU banks to freely operate throughout the EU.

Several papers have previously examined the tax and non-tax determinants of bank interest margins and profitability. For a sample of banks in 80 countries over the years 1988-1995, Demirgüç-Kunt and Huizinga (1999) find that interest margins and profitability are negatively related to official reserves, which represent a form of implicit taxation. Interest margins and profitability are further positively related to the local corporate tax rate. The estimated coefficient on the corporate tax rate in the profitability regression is consistent with a full pass-through of the corporate tax to bank customers. Demirgüç-Kunt and Huizinga (2001) extend this analysis to distinguish between domestically owned and foreign-owned banks. The profitability of foreign-owned banks is found to rise relatively little with the local corporate tax rate, which can be explained by international profit shifting or by the international double tax relief provided by parent countries. The present paper goes beyond Demirgüç-Kunt and Huizinga (2001) by including in the analysis both host and parent country taxation payable by foreign-owned banks.<sup>5</sup>

An extensive literature, surveyed by Ederveen and de Mooij (2006), examines the impact of taxation on FDI. Several authors have previously found a role for parent-country taxation to affect the location of FDI. For US multinationals, Kemsley (1998) finds that the host country tax only affects the ratio of US exports to foreign production over the period 1984-1992 if the multinationals find themselves in excess credit positions. Analogously, a role of parent-country taxation in affecting FDI into the United States is found by Hines (1996) who shows that foreign countries with worldwide taxation invest relatively much in US states with high state taxes. This reflects that multinationals located in countries with worldwide taxation may be able to obtain foreign tax credits for US state corporate income taxes. Egger, Loretz, Pfaffermayr, and Winner (2009) construct an effective tax rate on a bilateral basis that reflects overall host and parent country taxation, and they find that this bilateral effective tax rate has a negative impact on bilateral FDI stocks after controlling for host and parent country unilateral effective tax rates. Barrios, Huizinga, Laeven and Nicodème (2010) examine how international double taxation

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<sup>5</sup> Demirgüç-Kunt, Laeven and Levine (2003) examine the impact of bank regulations, market structure and national institutions on the bank net interest margins for a sample of banks from 72 countries over the years 1995-1999 while not considering taxation. Martinez Peria and Mody (2004) examine how foreign bank participation affects interest margins of Latin American banks during the period 1995-2000, distinguishing between individual-bank and banking-system foreign ownership. Maudos and Guevara (2003) examine the impact of bank market power on interest spreads in six large European banking markets in the period 1993-2000. Valverde and Fernandez (2007) examine the impact of a bank's activity mix on bank margins in Europe.

affects foreign subsidiary location, finding that parent country corporate income taxation discourages subsidiary location. Huizinga and Voget (2009) find a negative impact of international double taxation on headquarter location following international M&As using individual deal as well as aggregated data. The present paper examines the impact of international double taxation on FDI in the banking sector only, using information for all banks rather than just for those that are newly formed through M&As. The banking focus of this paper allows us to consider both a price response (through interest margins) and a quantity response (through FDI) to international double taxation.

This paper is organized as follows. Section 2 describes the international tax system, and it provides some summary information on the international tax rates that apply to our sample of banks. Section 3 presents the empirical results on the impact of international taxation on bank interest margins and profitability. Section 4 in turn presents results on how international taxation affects banking sector FDI. Section 5 concludes.

## **2. The international taxation of banks**

### **2.1 The international tax system**

In this section, we describe the international tax system that applies to a bank owned by some foreign parent bank. We consider the additional international taxation that applies to the subsidiary's dividend and also its interest payments to outside investors on the assumption that these payments are first made to the parent firm which then passes them on to final investors. Thus, we will assume that the parent bank pays out any dividends received from the foreign subsidiary as dividends to investors, while any interest received is paid out as interest. We examine the international tax system as it applies to dividend and interest payments in turn.<sup>6</sup>

A bank's income is subject to the local corporate income tax before it can be paid out as dividends. For a domestic bank located in country  $i$ , the corporate income tax  $t_i$  is the only tax on income paid out as dividends at the corporate level. Table 1 indicates the statutory corporate tax rate on corporate profit in 2008 for 38 countries in this study, which in addition to many European countries includes Australia, Canada, Japan, Mexico, New Zealand, South Korea and the United States.<sup>7</sup>

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<sup>6</sup> See Huizinga, Laeven and Nicodème (2008) for an alternative description of the international tax treatment of the debt and equity finance of a multinational firm.

<sup>7</sup> The sample is restricted to OECD countries and countries of the European Economic Area due to data availability.

Dividends paid out by a foreign subsidiary located in country  $i$  can be subject to a nonresident dividend withholding tax  $w_i^e$  levied by the subsidiary country. Bilateral dividend withholding taxes for our sample of countries in 2008 are presented in Table 2. Among long-standing EU member states, nonresident dividend withholding taxes for payments to parent firms are zero on account of the EU Parent-Subsidiary Directive. Non-EU countries such as Canada, Japan, New Zealand, and the United States maintain non-zero dividend withholding taxes in a considerable number of cases.

The parent country may or may not tax any income generated abroad. In case the parent country operates a territorial or source-based tax system, it effectively exempts foreign-source income from taxation. The effective tax on income generated in country  $i$  and paid out as dividends in country  $p$  then is  $t_i + w_i^e(1 - t_i)$ , and the additional tax on account of foreign ownership, denoted  $\tau_i$ , equals  $w_i^e(1 - t_i)$ .

Alternatively, the parent country operates a worldwide or residence-based tax system. In this instance, the parent country subjects income reported in country  $i$  to taxation, but it generally provides a foreign tax credit for taxes already paid in country  $i$  to reduce the potential for double taxation. The OECD model treaty, which summarizes recommended practice, gives countries the choice between an exemption and a foreign tax credit as the only two ways to relieve double taxation (OECD, 1997). The foreign tax credit reduces domestic taxes on foreign source income one-for-one with the taxes already paid abroad. The foreign tax credit can be indirect in the sense that it applies to both any withholding tax and the underlying subsidiary-country corporate income tax, or it is direct and applies only to the withholding tax. In either case, foreign tax credits are generally limited to prevent the domestic tax liability on foreign source income from becoming negative.

In the indirect credit regime, an international bank will pay no corporate income tax in the parent country, if the parent tax rate  $t_p$  is less than  $t_i + w_i^e(1 - t_i)$ . The international bank then has unused foreign tax credits and is said to be in an excess credit position. Alternatively,  $t_p$  exceeds  $t_i + w_i^e - t_i w_i^e$ . In that instance, the bank pays tax in the parent country at a rate equal to the difference between  $t_p$  and  $t_i + w_i^e - t_i w_i^e$ . The effective, combined tax rate on the dividend income then equals the parent country tax rate,  $t_p$ . To summarize, with the indirect credit system,



the effective rate on income generated in country  $i$ , is given by  $\max [t_p, t_i + w_i^e - t_i w_i^e]$ , and the additional tax on account of foreign ownership  $\tau_i$ , equals  $\max [t_p - t_i, w_i^e(1 - t_i)]$ . With a direct foreign tax credit, the international bank pays no corporate income tax in the parent country, if the parent tax rate  $t_p$  is less than  $w_i^e$ . In the more common case where  $t_p$  exceeds  $w_i^e$ , the bank instead pays tax in the parent country at a rate equal to  $(1 - t_i)(t_p - w_i^e)$ . The effective, two-country tax rate now is given by  $t_i + (1 - t_i) \max[t_p, w_i^e]$ , and the additional international tax  $\tau_i$ , equals  $(1 - t_i) \max[t_p, w_i^e]$ . A few countries with worldwide taxation do not provide foreign tax credits, but instead allow foreign taxes to be deducted from the multinational's taxable income. In the scenario, the effective rate of taxation on dividends is given by  $1 - (1 - t_i)(1 - w_i^e)(1 - t_p)$ , and  $\tau_i$  equals  $(1 - t_i)[1 - (1 - w_i^e)(1 - t_p)]$ .

Columns 2-4 of Table 1 provide information on the double taxation rules applied to incoming dividends in 2008. Several countries are seen to discriminate between international tax treaty partners and non-treaty countries. We have collected information on the existence of bilateral tax treaties to assess the relevant double tax relief method. Also, several EU countries are seen to offer relatively generous double tax relief for intra-EU dividends.

Next, we consider the additional international taxation that may apply to interest payments by a foreign subsidiary bank that reach final investors via an international parent bank. Interest expense on debt is generally deductible from taxable corporate income in the subsidiary country  $i$ , but the subsidiary country may levy a non-resident withholding tax  $w_i^d$  on interest payments to the parent bank in country  $p$ . As seen in Table 3, bilateral nonresident withholding taxes on interest on interest payments to related parties tend to be zero in the EU on account of the Interest and Royalties Directive, even if non-EU countries such as Canada, Japan and the United States frequently levy positive nonresident interest withholding taxes.

The parent country generally applies corporate income tax to the parent bank's interest receipt from its foreign subsidiary. As before, the parent country has three main options regarding double tax relief: (i) an exemption, (ii) a foreign tax credit, or (iii) a deduction. For each of these three cases, an additional international tax rate on interest on account of the subsidiary's foreign ownership can be derived, and formulae are presented in Table 4. Columns 5 and 6 of Table 1 provide information on the double taxation rules applicable to incoming interest

from treaty and non-treaty signatory countries, respectively. As seen in the table, most countries provide a foreign tax credit (to be applied to any nonresident interest withholding tax), a few countries allow a deduction in the absence of a tax treaty, and no country exempts foreign interest income.

## **2.2 International taxation of banks in the sample**

Data on individual banks are taken from Bankscope. This data source provides accounting data on banks worldwide in a standardized format. In addition, Bankscope provides information on ownership relationships among banks. For each bank, Bankscope provides information on major owners (and also information on any owned subsidiaries). Our aim is to have a sample of all the banking establishments that operate in a country, and for each establishment provide information on majority foreign ownership, if any. To construct a comprehensive sample of the banks that operate in a country, we include unconsolidated parent firms and all subsidiaries. The ownership information provided for subsidiaries is then used to see if there is a corporate major shareholder and to find out where such a major shareholder has its residence. Our country coverage is limited to the countries for which we have collected tax information as listed in Table 1. Thus, we include banks that are located in one of these countries and that have majority owners resident in one of these countries. Our sample covers the years 1998-2008.

Table 5 provides a breakdown of our sample of banks by the country of location. Banks located in the US comprise 46 percent of the sample, or 4461 US banks in an overall sample of 9729. Other countries with at least 400 observations are France, Germany, Italy, Luxembourg and Switzerland. Table 5 also provides information on the share of assets held by foreign-owned banks. The foreign-bank asset share is on average 9.5 percent internationally. The foreign ownership share by assets is very high in the Baltic states (96.5 percent in Estonia, 49.7 percent in Latvia, and 80.0 in Lithuania) and also in Luxembourg (67.2 percent), while it is lowest in the US at 1.2 percent. The average share of foreign banks in the total number of banks across the countries in our sample is further seen to be 18.0 percent. The average foreign ownership data in Table 5 reflect that foreign-owned banks tend to smaller by assets.

Table 6 provides information on the local and international tax burdens on banks by country of residence. The host country corporate income tax on average is 36.1 percent for all

banks. The average dividend double tax, corresponding to the expressions in Table 4, is calculated as 0.8 percent for all banks. The average interest double tax is further shown to be positive only for some banks located in Cyprus and Switzerland. In the empirical work below, we will only consider the international double taxation of dividend income, given the dearth of observations where the international double taxation of interest income is positive. The final two columns of Table 6 provide information on the average international taxes for only the sample of foreign-owned banks. For these banks, the average dividend double tax amounts to 3.5 percent, to suggest that foreign-owned banks on average face a 10 percent higher tax than domestic banks that are only subject the local corporate tax rate.

### **3. Bank interest margins and profitability**

In this section, we examine how the international taxation of banks affects bank interest margins and bank profitability. A bank's pre-tax profits are defined by the following accounting identity

$$\text{Pre-tax profits} = \text{Net interest income} + \text{Net other operating income} - \text{Loan loss provisions} - \text{Overhead}.$$

In the empirical work, we will use interest income and profitability measures scaled by total bank assets. Thus, net interest income over assets is a bank's net interest income scaled by total assets. Net interest income over assets has a sample mean of 2.8 percent, as seen in Table 7. Similarly, Pre-tax profits over assets is the ratio of a bank's pre-tax profits to total assets. This profit variable reflects variation in all the various items in a bank's income statement, including its net interest income, and it has a mean of 1.3 percent. Pre-tax profits over assets can be split into Taxes over assets and Post-tax profits over assets with mean values of 0.4 and 1.0 percent, respectively. The Taxes over assets variable reflects the taxes paid by the reporting bank, and hence they exclude any corporate taxes to be paid by an international parent bank and any nonresident dividend withholding taxes. These latter taxes are to be paid out of the dividends distributed by the bank. The Taxes over assets variable similarly excludes any nonresident interest withholding taxes that are to be paid out of interest paid by the bank and received by nonresidents.

The margin and profitability variables will be explained by several tax rate variables in the empirical work. Among these, the local or host country corporate income tax has a mean of

35.2 percent. Next, the parent country tax is the corporate income tax rate in the parent country in case a bank is foreign-owned. This variable is set to zero in case of domestic ownership. The mean of the parent country tax variable is seen to be 7.4 percent. International double taxation of dividend income has a mean of 0.8, whereas the interest double tax has a mean of virtually zero.

The impact of bank taxes on bank net interest revenue and profitability reflects the extent to which these taxes are shifted onto bank customers and other related parties through different price setting. In practice, banks may be able to shift some of their taxes to bank retail customers, other bank liability holders, bank employees and further providers of banking inputs. For instance, a bank could shift some of its taxes to its retail customers in the form of a higher lending rate and a lower deposit rate, giving rise to higher net interest revenues and higher pre-tax profitability.<sup>8</sup>

Banking taxation may also affect the recorded net interest revenue and profitability as a result of international profit shifting within a multinational bank. The expected impact of taxation on recorded net interest revenue and profitability is opposite to the one resulting from tax pass-through to the parties that the bank deals with. Higher host country taxation and dividend double taxation, in particular, provide increased incentives to shift profits to an international parent bank, implying lower recorded profitability of a foreign subsidiary bank. Empirical relationships between bank income and profit measures and tax variables thus will reflect tax incidence shifting as well the international shifting of accounting profits.

Several bank-level and country-level variables are included in the analysis as controls. Assets is the log of total bank assets in real terms to control for bank size. The ratio of earning assets to bank assets proxies for a bank's focus on interest-generating activities as opposed to fee-generating activities. Foreign signals ownership by foreign shareholders with at least 50 percent ownership. Foreign ownership potentially affects net interest revenue and profitability on account of different interest margins and profitability in an economic sense as well as on account of international profit shifting. Market share is a bank's total loans as a share of all loans provided by banks located in a certain country. A high market share may give rise to market power, leading to higher net interest revenue and profitability. Alternatively, a high market share

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<sup>8</sup> Going in the other direction, the bank net interest revenue could fall with the double interest tax, as any nonresident recipient of bank interest could demand a higher pre-tax interest rate to compensate for the nonresident interest tax.

could reflect bank efficiency, resulting in low interest margins to the extent that bank customers reap the benefits of higher bank efficiency.

Among the country-level controls, the foreign ownership share is the share of assets of foreign-owned banks in total banking system assets. A high share of foreign ownership suggests free entry of foreign banks, possibly reducing interest margins and profitability. Top five market share is the share of loans of the top five lending banks in total loans provided in a country. A highly concentrated lending market, as indicated by a high top 5 lending share, may explain high interest margins and profitability. GDP per capita is the log of real GDP per capita. Industrial growth rate is the growth rate of industrial production. Strong industrial growth may imply high loan demand, pushing up net interest revenue and profitability. Inflation rate is the rate of change in the consumer price index. High inflation may increase net interest revenue, if lending rates more accurately reflect inflation than deposit rates. Finally, real interest rate is the money market interest rate minus the inflation rate. High real interest rates may reflect plentiful opportunities to invest profitably, pushing up interest margins and bank profitability.

Table 8 shows the results of regressions of our four dependent variables. The regressions include host country and year fixed effects, and standard errors are robust to clustering at the bank level. In the Net interest income over assets regression 1, the host country tax obtains a negative coefficient of -0.015 consistent with outward profit shifting induced by a higher host country tax, but the coefficient is not statistically significant. The double dividend tax obtains a coefficient of 0.035 that is significant at the 5 percent level.

This estimated coefficient implies a certain sharing of the incidence of additional international taxation between the bank and its customers. To evaluate this, let  $b$  be the net-of-tax net interest margin calculated as  $(1-t)n$  where  $t$  is the combined national and international tax rate on net interest income and  $n$  is the pre-tax interest margin. Tax revenue is denoted  $r$  and calculated as  $tn$ . A change in the combined tax rate  $t$  changes the bank return by  $db/dt = -n + (1-t)*dn/dt$ , while the change in revenues is given by  $dr/dt = n + t*dn/dt$ . The share of the incidence on the bank is computed as  $-(db/dt)/(dr/dt)$ , while the share of the incidence on bank customers equals  $(dn/dt)/(dr/dt)$ . To do the calculation, we set  $n$  to its sample mean of 0.028,  $t$  is the combined summed mean dividend double tax and mean host country tax of 0.36 (the sum of 0.352 and 0.008), and  $dn/dt$  is the estimated coefficient of 0.035. The share of the incidence of a higher international double tax on the bank is now calculated to be 13.8 percent, with the

remaining share of 86.2 of the incidence being borne by the bank's loan customers and depositors.

In regression 1 the assets variable obtains a coefficient of -0.002 that is significant at the 1 percent level. This may reflect that big banks deal with large customers that obtain favorable interest rates. The foreign ownership dummy enters with a negative coefficient of -0.003 that is significant at 5 percent. This could equally reflect that foreign-owned banks tend to deal with sophisticated customers, or alternatively that they have to offer more attractive interest terms to their customers on account of lack of information or distrust. Net interest income over assets is further positively and significantly related to the bank's own market share, as a large loan market share may enable it to exercise market power in the loan market. Among the macroeconomic variables, the net interest income relative to assets is positively and significantly related to the growth rate of industrial production and to the rate of inflation.

The dependent variables in regressions 2-4 are pre-tax profits over assets, taxes over assets, and post-tax profits over assets, respectively. In all three regressions, the host country tax is seen to enter with a negative coefficient that is significant at 1 percent, consistent with an international profit shifting motive. The dividend double tax does not enter any of the three regressions with a statistically significant coefficient, as higher income resulting from pass through of the tax to bank customers and other input providers may be offset by increased outward profit shifting through non-interest channels.

Domestic and foreign-owned banks face different international profit-shifting opportunities. Domestic banks are able to engage in international profit shifting only to the extent that they own subsidiaries abroad. Foreign-owned banks, in contrast, certainly have international profit shifting opportunities vis-à-vis their parent bank. To see whether domestic and foreign-owned banks respond differently to profit shifting incentives as provided by the host country tax rate, we next include an interaction variable of the host country tax variable and the foreign ownership dummy in a set of regression as in Table 8. This interaction variable is expected to obtain a negative coefficient, as foreign-owned banks may find it relatively easy to reduce reported profitability in response to a higher host country tax rate. In addition, foreign-owned banks face a higher incentive to report profits locally, if they face a higher parent country tax. To test this, we also include a parent country tax variable that is set to zero in case of domestic ownership.

Table 9 reports regressions of net interest revenue and profitability that include these two additional tax variables that test for tax-induced international profit shifting. Otherwise, the regressions are as in Table 8. The interaction term of the host country tax and the foreign ownership dummy is estimated with insignificant coefficients in all of the regressions of Table 9, suggesting that profit shifting opportunities of domestic and foreign-owned firms are not materially different. The parent country tax variable interestingly obtains positive and significant coefficients in the pre-tax profitability over assets and taxes over assets regressions 2 and 3. Thus, foreign-owned firms with higher parent country taxes report higher host-country profitability and pay higher host-country taxes, consistent with a profit-shifting incentive.

Member states of the EU do not impose discriminatory restrictions on intra-EU foreign banking and they subscribe to a common set of basic minimum standards of bank regulation in areas such as capital adequacy and deposit insurance. In fact, the generally discriminatory taxation of intra-EU foreign banking may be the major form of discrimination of foreign banking in the EU that is still in place. A sample of just EU banks (located in the EU and with EU parent firms, if any) thus is an ideally suited to test for the impact of international taxation on interest margins and profitability.

Table 10 reports results of regressions analogous to Table 8 for the sample of EU banks only. The dividend double tax continues to affect the net interest revenue over assets variable positively and significantly in regression 1, and now it also enters with positive and significant coefficients in the pre-tax profits over assets and post-tax profits over assets regressions 2 and 4. Thus, in the EU higher dividend double taxation is estimated to increase bank profitability as the pass-through of this taxation to other parties dominates any induced higher outward profit shifting.<sup>9</sup> The apparently relatively minor effect of dividend double taxation on international profit shifting could reflect a relatively intense cooperation among EU tax authorities in the area of international profit shifting. Consistent with this, we find that the host country tax remains insignificant.

#### **4. FDI in the banking sector**

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<sup>9</sup> The profitability variable is more volatile for non-EU banks than for EU banks (with standard deviations of 0.018 and 0.014). This is due to more variable net other operating income relative to assets for non-EU banks than for EU banks (with standard deviations of 0.043 and 0.033), and it provides a potential reason why the relationship between profitability and the dividend double tax is significant for the sample of EU banks, but not for the entire sample.

The previous section examined how international taxation affects net interest revenue and bank profitability given the domestic and foreign ownership of banks. The evidence is consistent with a significant pass-through of international taxation into higher interest margins for the overall and EU samples, and a significant pass through into higher profits for the EU sample. With elastic demand for financial services, higher net interest revenues and profits relative to assets can only be achieved by cutting back the volume of financial services. Thus, international taxation should have a discernible impact on the quantity of financial services provided by foreign-owned banks.

In this section, we estimate the impact of international taxation on the volume of foreign-provided financial services. Our main volume variable is the aggregate assets of foreign-owned banks in a particular country as owned by corporate entities in another country. Aggregate assets of foreign banks on a bilateral basis are expected to decline with dividend double taxation, if each bank or at least the average bank cuts back its activities in countries where dividends are subject to double international taxation. As an alternative banking FDI variable, we also consider the number of banks in a particular country owned by corporate entities in another country. International taxation may prevent the establishment of foreign ownership relationships between certain pairs of countries, or it may cause highly taxed banks to sell their foreign subsidiaries to bring about a more tax efficient ownership structure, thereby reducing the number of foreign owned banks. We apply a gravity model to estimate the impact of international taxation on our indices of banking-sector FDI. Previously, Wei (2000), Evenett (2003), and Buch, Kleinert and Toubal (2004) have used the gravity model to explain FDI. Further, Di Giovanni (2005) and Huizinga and Voget (2009) have applied the gravity model to the volume of cross-border M&as, while Portes and Rey (2005) have estimated a gravity model of trade in financial assets.

The gravity model relates our measures of cross-border banking to national and international tax rates and to a range of non-tax controls. Among these controls, we include standard gravity model variables such as the bilateral distance, contiguity (a dummy variable signaling that two countries have a common border), and common official language (a dummy variable signaling that two countries have a common official language). Also included are host and potential parent country GDPs which are expected to be positively related to bilateral banking FDI. Finally, we include indices of host and parent countries' regulatory quality, and indices of their use of capital controls. Inward banking FDI may be related negatively and



positively to host-country and parent-country regulatory quality respectively, if banking FDI is driven by a need for a parent bank to be located in a country with relatively high regulatory quality. Capital controls generally may discourage banking FDI. Table 11 shows summary statistics for the variables in our banking FDI regressions.

Following the modeling of trade flows in Santos Silva and Tenreyro (2006), Table 12 shows estimation results of Poisson regressions, where the dependent variable is either the total assets of foreign-owned banks or the number of foreign-owned banks on a bilateral aggregate basis.<sup>10</sup> The regressions include host country, parent country, and year fixed effects, and errors are clustered at the host country level. In regression 1 the dependent variable is total assets of foreign-owned banks on a bilateral basis as a measure of banking FDI. The dividend double tax obtains a significantly negative coefficient, while the interest double tax obtains a negative coefficient of -7.124 that is statistically insignificant. This estimated for the dividend double tax implies that a 1 percentage point increase in this variable reduces bilateral FDI by 7.1 percent, which is economically significant given a mean dividend double tax of 3.5 percent for foreign-owned banks as seen in Table 6.

In regression 2 the dependent variable is the number of cross-border banks. The dividend double tax is significantly negative with a coefficient of -3.150. This suggests that a one percentage point increase in the dividend double tax reduces the number of cross-border banks on a bilateral basis by 3.15 percent. This estimated coefficient of -3.150 is less negative than the estimated coefficient in the corresponding foreign-bank assets regression 1. This suggests that a higher dividend double tax leads to both fewer and smaller cross-border banks.<sup>11</sup>

To conclude this section, we consider whether banking FDI within the EU can be shown to respond to international double taxation. Specifically, regressions 3 and 4 of Table 12 reproduce the first two regressions of this table for the intra-EU sample. When FDI is measured in terms of cross-border banking assets, the estimated coefficient for the dividend double tax in regression 3 for the intra-EU sample of -13.639 is more negative than the corresponding coefficient of -7.124 in regression 1 for the wider sample. Thus, intra-EU banking FDI appears to

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<sup>10</sup> Negative binomial regressions are not considered as an alternative to the Poisson regressions because Bosquet and Boulhol (2010) point out that negative binomial regressions with a continuous dependent variable are scale-dependent. Instead, employing robust errors accommodates deviations from the Poisson distribution.

<sup>11</sup> Verbeek (2000, p. 217) points out that a selection bias does not arise if selection depends upon the exogenous variables only. Hence, a significant effect of dividend double taxes on the number of cross-border banks does not imply a selection bias for the interest margin regressions in the previous section.

be relatively sensitive to international taxation, perhaps because EU banks from different countries offer similar services giving rise to high demand elasticities at foreign-owned banks inside the EU. On the other hand, when FDI is measured in terms of subsidiary banks abroad, then the estimated coefficient on the dividend double tax for the intra-EU sample in regression 4 of -3.074 is very similar to the estimate of -3.140 in regression 2 for the wider sample, although the coefficient is now insignificant in the smaller sample.

Our estimation results in the net interest revenue and profit regressions of Table 8-10 and the FDI regressions of Table 12 are consistent in that the dividend double tax has statistically significant effects in both settings. Taken together, our results indicates that the dividend double tax increases margins and profits, as it causes foreign-owned firms to reduce their host-country supply of financial services.

## **5. Conclusions**

International double taxation is a remaining barrier to international banking market integration. As a result of such taxation, international banks may face higher corporate income taxation than domestic banks that operate in the same banking market. International double taxation thus provides for variation in the taxation of banks within countries as well as across countries. In this paper, we estimate the pricing response – as reflected in interest margins – and the quantity response – as reflected in banking-sector FDI - to variation in international double taxation.

We find that the international double taxation of the dividend income of international banks is almost fully reflected in higher interest margins. Thus, international banks appear to have enough pricing power to pass on their international tax burden to local bank customers. As the revenue of this tax in part accrues to the parent country treasury, the parent country corporate tax appears to be partially exported to the host country banking market. To be able to raise prices, however, banks are shown to restrict the supply of financial service in banking markets subject to higher international double taxation of dividends. Specifically, bilateral aggregate FDI in terms of foreign bank assets is shown to decline with the international double taxation of dividend. The sensitivity of banking-sector FDI to international double taxation implies that such taxation distorts the international banking market. Specifically, the international ownership of banks subject to high international double taxation is discouraged.

True integration of the international banking market requires that discriminatory taxation of international banks is eliminated. This implies that countries eliminate nonresident dividend withholding taxes and exempt the foreign-source income of their resident multinational banks from domestic taxation. In our larger data set, the average rate of international double taxation of dividend income, reflecting both nonresident withholding taxation and home country corporate income taxation, amounts to a substantial 3.5 percent. In the EU, nonresident dividend taxes on intra-firm dividend payments have been eliminated by the Parent-Subsidiary Directive, but parent country corporate income taxes generally remain. Specifically, EU countries that continue to tax corporate income on a worldwide basis are Bulgaria, Greece, Ireland, Poland, Portugal and Romania. The United Kingdom switched to a territorial tax system in 2009. Worldwide, the US is a major country that continues to tax corporate income on a residence basis.

Our results have implications for the debate on any additional taxation of the financial sector following the financial crisis of 2007-2009. The IMF (2010) discusses a range of options for new tax instruments that would increase the tax burden on the financial sector. These include a Financial Activities Tax, which is a levy on a bank's combined profits and wage bill, and a Financial Stability Contribution, which taxes a bank's liabilities net of its insured deposits. Our results concerning international income taxation as applied to the banking sector inform especially about the likely incidence and dislocation effects of a Financial Activities Tax given that the latter tax also is a tax on income derived from the financial sector. Our empirical results specifically suggest that a Financial Activities Tax could well be largely passed on to bank customers, and lead to significant dislocation effects of banking activity. This outcome is more likely if a Financial Activities Tax varies widely across countries and possibly within countries in case it were levied on a residence-basis.

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Table 1. Corporate income taxes and double tax relief in 2008

a: Direct tax credit (only withholding tax), b: If the exemption is not specified in the tax treaty, then only 25 percent of dividends are exempted, c: Indirect tax credit with tax treaty, d: Three tax treaties (with Brazil, Israel and Mexico) provide for an exemption, otherwise direct credit, e: The tax treaty must include an exchange of information clause.

| Country         | (1)<br>Corporate<br>income tax rate | (2)<br>Relief for dividends | (3)                 | (4)           | (5)<br>Relief for interest | (6)            |
|-----------------|-------------------------------------|-----------------------------|---------------------|---------------|----------------------------|----------------|
|                 |                                     | With treaty                 | Without treaty      | Intra-EU      | With treaty                | Without treaty |
| Australia       | 0.30                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Austria         | 0.25                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Belgium         | 0.34                                | 95% Exemption               | 95% Exemption       |               | Credit                     | Credit         |
| Bulgaria        | 0.10                                | Credit <sup>a</sup>         | Credit <sup>a</sup> | 95% Exemption | Credit                     | Credit         |
| Canada          | 0.34                                | Exemption                   | Credit              |               | Credit                     | Credit         |
| Croatia         | 0.20                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Cyprus          | 0.10                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Czech Republic  | 0.21                                | Exemption                   | Deduction           | Exemption     | Credit                     | Deduction      |
| Denmark         | 0.25                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Estonia         | 0.21                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Finland         | 0.26                                | Exemption <sup>b</sup>      | Credit <sup>a</sup> | Exemption     | Credit                     | Credit         |
| France          | 0.33                                | 95% Exemption               | 95% Exemption       |               | Credit                     | Deduction      |
| Germany         | 0.30                                | 95% Exemption               | 95% Exemption       |               | Credit                     | Credit         |
| Greece          | 0.25                                | Credit                      | Credit              |               | Credit                     | Credit         |
| Hungary         | 0.16                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Ireland         | 0.13                                | Credit                      | Credit              |               | Credit                     | Deduction      |
| Italy           | 0.31                                | 95% Exemption               | 95% Exemption       |               | Credit                     | Credit         |
| Japan           | 0.41                                | Credit                      | Credit              |               | Credit                     | Credit         |
| Latvia          | 0.15                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Lithuania       | 0.15                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Luxembourg      | 0.30                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Malta           | 0.35                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Mexico          | 0.28                                | Credit                      | Credit              |               | Credit                     | Credit         |
| Netherlands     | 0.25                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| New Zealand     | 0.30                                | Credit                      | Credit              |               | Credit                     | Credit         |
| Norway          | 0.28                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Poland          | 0.19                                | Credit <sup>c</sup>         | Credit <sup>a</sup> | Exemption     | Credit                     | Credit         |
| Portugal        | 0.25                                | Credit <sup>d</sup>         | Credit <sup>a</sup> | Exemption     | Credit                     | Credit         |
| Romania         | 0.16                                | Credit <sup>a</sup>         | Credit <sup>a</sup> | Exemption     | Credit                     | Credit         |
| Slovak Republic | 0.19                                | Exemption                   | Exemption           |               | Credit                     | Deduction      |
| Slovenia        | 0.22                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| South Korea     | 0.28                                | Credit                      | Credit              |               | Credit                     | Credit         |
| Spain           | 0.30                                | Exemption <sup>e</sup>      | Credit              |               | Credit                     | Credit         |
| Sweden          | 0.28                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| Switzerland     | 0.17                                | Exemption                   | Exemption           |               | Credit                     | Deduction      |
| Turkey          | 0.20                                | Exemption                   | Exemption           |               | Credit                     | Credit         |
| United Kingdom  | 0.28                                | Credit                      | Credit              |               | Credit                     | Credit         |
| United States   | 0.39                                | Credit                      | Credit              |               | Credit                     | Credit         |

Table 2. Nonresident withholding taxes on dividends in 2008

This table provides nonresident withholding taxes on dividends from countries in the left column to countries in the top row.

|    | AT   | AU   | BE   | BG   | CA   | CH   | CY   | CZ   | DE   | DK   | EE   | ES   | FI   | FR   | GB   | GR   | HR   | HU   | IE   |
|----|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| AT |      | 0.15 | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| AU | 0.15 |      | 0.15 | 0.3  | 0.05 | 0.15 | 0.3  | 0.15 | 0.15 | 0.15 | 0.3  | 0.15 | 0.15 | 0.15 | 0.05 | 0.3  | 0.3  | 0.15 | 0.15 |
| BE | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| BG | 0    | 0.07 | 0    |      | 0.07 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| CA | 0.05 | 0.05 | 0.15 | 0.1  |      | 0.05 | 0.15 | 0.05 | 0.05 | 0.05 | 0.05 | 0.15 | 0.1  | 0.1  | 0.05 | 0.25 | 0.05 | 0.1  | 0.05 |
| CH | 0    | 0.15 | 0    | 0    | 0.05 |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| CY | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| CZ | 0    | 0.15 | 0    | 0    | 0.05 | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| DE | 0    | 0.15 | 0    | 0    | 0.05 | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0    | 0    |
| DK | 0    | 0.15 | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| EE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| ES | 0    | 0.15 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| FI | 0    | 0.15 | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0.05 | 0    | 0    |
| FR | 0    | 0.15 | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    |
| GB | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    |
| GR | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    |
| HR | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    |
| HU | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    |
| IE | 0    | 0.15 | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| IT | 0    | 0.15 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.1  | 0    |
| JP | 0.1  | 0.15 | 0.05 | 0.1  | 0.05 | 0.1  | 0.2  | 0.1  | 0.1  | 0.1  | 0.2  | 0.1  | 0.1  | 0.05 | 0.1  | 0.2  | 0.2  | 0.2  | 0.1  |
| KR | 0.05 | 0.15 | 0.15 | 0.05 | 0.15 | 0.1  | 0.25 | 0.05 | 0.05 | 0.15 | 0.25 | 0.1  | 0.1  | 0.1  | 0.05 | 0.05 | 0.25 | 0.05 | 0.1  |
| LT | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| LU | 0    | 0.15 | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0    | 0    |
| LV | 0    | 0.1  | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| MT | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| MX | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| NL | 0    | 0.15 | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.1  | 0    |
| NO | 0    | 0.15 | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0    | 0    |
| NZ | 0.15 | 0.05 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| PL | 0    | 0.15 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| PT | 0    | 0.2  | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.2  | 0    | 0    |
| RO | 0    | 0.05 | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| SE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| SI | 0    | 0.15 | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    |
| SK | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| TR | 0.15 | 0.15 | 0.15 | 0.1  | 0.15 | 0.15 | 0.15 | 0.1  | 0.15 | 0.15 | 0.1  | 0.05 | 0.15 | 0.15 | 0.15 | 0.15 | 0.1  | 0.1  | 0.15 |
| US | 0.05 | 0.05 | 0.05 | 0.3  | 0.05 | 0.05 | 0.05 | 0.05 | 0    | 0.05 | 0.05 | 0.1  | 0.05 | 0.05 | 0.05 | 0.3  | 0.3  | 0.05 | 0.05 |



(Table 2, continued)

|    | IT   | JP   | KR   | LT   | LU   | LV   | MT   | MX   | NL   | NO   | NZ   | PL   | PT   | RO   | SE   | SI   | SK   | TR   | US   |
|----|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| AT | 0    | 0.1  | 0.05 | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    | 0.25 | 0    | 0    | 0    | 0    | 0    | 0    | 0.25 | 0.05 |
| AU | 0.15 | 0.15 | 0.15 | 0.3  | 0.3  | 0.3  | 0.15 | 0    | 0.15 | 0.15 | 0.05 | 0.15 | 0.3  | 0.05 | 0.15 | 0.3  | 0.15 | 0.3  | 0.05 |
| BE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| BG | 0    | 0.07 | 0.05 | 0    | 0    | 0    | 0    | 0.07 | 0    | 0    | 0.07 | 0    | 0    | 0    | 0    | 0    | 0    | 0.07 | 0.07 |
| CA | 0.15 | 0.05 | 0.15 | 0.05 | 0.05 | 0.05 | 0.15 | 0.1  | 0.05 | 0.05 | 0.15 | 0.15 | 0.1  | 0.05 | 0.05 | 0.05 | 0.05 | 0.25 | 0.05 |
| CH | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.35 | 0.05 |
| CY | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| CZ | 0    | 0.1  | 0.05 | 0    | 0    | 0    | 0    | 0.1  | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.1  | 0.05 |
| DE | 0    | 0.1  | 0.05 | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0.05 |
| DK | 0    | 0.1  | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0.05 |
| EE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| ES | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0.1  |
| FI | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0.05 |
| FR | 0    | 0.05 | 0.1  | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0.05 |
| GB | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| GR | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| HR | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| HU | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| IE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0.2  | 0    |
| IT |      | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.15 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0.05 |
| JP | 0.1  |      | 0.05 | 0.2  | 0.05 | 0.2  | 0.2  | 0    | 0.05 | 0.05 | 0.15 | 0.1  | 0.2  | 0.1  | 0.1  | 0.2  | 0.1  | 0.1  | 0    |
| KR | 0.1  | 0.05 |      | 0.25 | 0.1  | 0.25 | 0.05 | 0    | 0.1  | 0.15 | 0.15 | 0.15 | 0.1  | 0.07 | 0.1  | 0.25 | 0.05 | 0.15 | 0.1  |
| LT | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| LU | 0    | 0.05 | 0.1  | 0    |      | 0    | 0    | 0.05 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0    |
| LV | 0    | 0.1  | 0.1  | 0    | 0    |      | 0    | 0.1  | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0.1  | 0.05 |
| MT | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| MX | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| NL | 0    | 0.05 | 0.1  | 0    | 0    | 0    | 0    | 0.05 |      | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.15 | 0.05 |
| NO | 0    | 0.05 | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    |      | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.2  | 0.15 |
| NZ | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |      | 0.15 | 0.15 | 0.15 | 0    | 0.15 | 0.15 | 0.15 | 0.15 |
| PL | 0    | 0.1  | 0.05 | 0    | 0    | 0    | 0    | 0.05 | 0    | 0    | 0.15 |      | 0    | 0    | 0    | 0    | 0    | 0.1  | 0.05 |
| PT | 0    | 0.2  | 0.1  | 0    | 0    | 0    | 0    | 0.1  | 0    | 0    | 0.2  | 0    |      | 0    | 0    | 0    | 0    | 0.05 | 0.05 |
| RO | 0    | 0.1  | 0.07 | 0    | 0    | 0    | 0    | 0.15 | 0    | 0    | 0.15 | 0    | 0    |      | 0    | 0    | 0    | 0.15 | 0.1  |
| SE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    |
| SI | 0    | 0.15 | 0.05 | 0    | 0    | 0    | 0    | 0.15 | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    |      | 0    | 0.1  | 0.05 |
| SK | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    |
| TR | 0.15 | 0.1  | 0.15 | 0.1  | 0.15 | 0.1  | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.1  | 0.15 | 0.15 | 0.15 | 0.1  | 0.05 |      | 0.15 |
| US | 0.05 | 0    | 0.1  | 0.05 | 0.05 | 0.05 | 0.3  | 0    | 0.05 | 0.15 | 0.15 | 0.05 | 0.05 | 0.1  | 0.05 | 0.05 | 0.05 | 0.15 |      |

Table 3. Nonresident withholding taxes on interest in 2008

This table provides nonresident withholding taxes on interest from countries in the left column to countries in the top row.

|    | AT   | AU   | BE   | BG   | CA    | CH   | CY   | CZ   | DE   | DK   | EE   | ES   | FI   | FR  | GB  | GR   | HR   | HU   | IE   |
|----|------|------|------|------|-------|------|------|------|------|------|------|------|------|-----|-----|------|------|------|------|
| AT |      | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| AU | 0.1  |      | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1 | 0.1 | 0.1  | 0.1  | 0.1  | 0.1  |
| BE | 0    | 0.1  |      | 0    | 0.15  | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0.1  | 0    |
| BG | 0    | 0.1  | 0.1  |      | 0.1   | 0.1  | 0.07 | 0.1  | 0    | 0    | 0.1  | 0    | 0    | 0   | 0   | 0.1  | 0.05 | 0.1  | 0.05 |
| CA | 0.1  | 0.1  | 0.15 | 0.1  |       | 0.1  | 0.15 | 0.1  | 0.1  | 0.1  | 0.1  | 0.15 | 0.1  | 0.1 | 0   | 0.25 | 0.1  | 0.1  | 0.1  |
| CH | 0    | 0.1  | 0    | 0    | 0.1   |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0.05 | 0    | 0    |
| CY | 0    | 0    | 0    | 0    | 0     | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| CZ | 0    | 0.1  | 0    | 0    | 0.1   | 0    | 0    |      | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| DE | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    |      | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| DK | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    |      | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| EE | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| ES | 0    | 0.1  | 0    | 0    | 0.15  | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0   | 0   | 0    | 0.08 | 0    | 0    |
| FI | 0    | 0.1  | 0    | 0    | 0.1   | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0   | 0   | 0    | 0    | 0    | 0    |
| FR | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |     | 0   | 0    | 0    | 0    | 0    |
| GB | 0    | 0.1  | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   |     | 0    | 0.1  | 0    | 0    |
| GR | 0.1  | 0.25 | 0.1  | 0.1  | 0.25  | 0.1  | 0.1  | 0.1  | 0.1  | 0.08 | 0.1  | 0.08 | 0.1  | 0.1 | 0   |      | 0.1  | 0.1  | 0.05 |
| HR | 0.05 | 0.15 | 0.1  | 0.05 | 0.1   | 0.05 | 0.15 | 0    | 0    | 0    | 0.1  | 0.15 | 0    | 0   | 0.1 | 0.1  |      | 0    | 0    |
| HU | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    |      | 0    |
| IE | 0    | 0.1  | 0    | 0    | 0.1   | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    |      |
| IT | 0    | 0.1  | 0    | 0    | 0.125 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0.1  | 0    | 0    |
| JP | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1  | 0.2  | 0.1  | 0.1  | 0.1  | 0.2  | 0.1  | 0.1  | 0.1 | 0.1 | 0.2  | 0.2  | 0.1  | 0.1  |
| KR | 0.1  | 0.15 | 0.1  | 0.1  | 0.15  | 0.1  | 0.25 | 0.1  | 0.1  | 0.15 | 0.25 | 0.1  | 0.1  | 0.1 | 0.1 | 0.08 | 0.25 | 0    | 0    |
| LT | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0    | 0.1  | 0.1  | 0.1 | 0.1 | 0.1  | 0.1  | 0.1  | 0.1  |
| LU | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| LV | 0    | 0.05 | 0    | 0    | 0.05  | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0.05 | 0    | 0    |
| MT | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| MX | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1 | 0.1 | 0.1  | 0.1  | 0.1  | 0.1  |
| NL | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| NO | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| NZ | 0.15 | 0.1  | 0.1  | 0.15 | 0.15  | 0.1  | 0.15 | 0.15 | 0.1  | 0.1  | 0.15 | 0.15 | 0.1  | 0.1 | 0.1 | 0.15 | 0.15 | 0.15 | 0.1  |
| PL | 0    | 0.1  | 0.05 | 0.1  | 0.15  | 0.1  | 0.1  | 0.1  | 0.05 | 0.05 | 0.1  | 0    | 0    | 0   | 0   | 0.2  | 0.1  | 0.1  | 0.1  |
| PT | 0.1  | 0.2  | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1 | 0.1 | 0.1  | 0.2  | 0.1  | 0.1  |
| RO | 0.03 | 0.1  | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.07 | 0.03 | 0.1  | 0.1  | 0.1  | 0.05 | 0.1 | 0.1 | 0.1  | 0.1  | 0.1  | 0.03 |
| SE | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| SI | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0    | 0    | 0    |
| SK | 0    | 0.1  | 0    | 0    | 0.1   | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0   | 0   | 0    | 0.1  | 0    | 0    |
| TR | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1 | 0.1 | 0.1  | 0.1  | 0.1  | 0.1  |
| US | 0    | 0.1  | 0.15 | 0.3  | 0.1   | 0    | 0.1  | 0    | 0    | 0    | 0.1  | 0.1  | 0    | 0   | 0   | 0.3  | 0.3  | 0    | 0    |

(Table 3, continued)

|    | IT   | JP   | KR   | LT   | LU   | LV   | MT   | MX    | NL   | NO   | NZ   | PL   | PT   | RO   | SE   | SI   | SK   | TR    | US    |
|----|------|------|------|------|------|------|------|-------|------|------|------|------|------|------|------|------|------|-------|-------|
| AT | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| AU | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1   |
| BE | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.1   | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0.15  | 0.15  |
| BG | 0    | 0.1  | 0.1  | 0.1  | 0.1  | 0.05 | 0    | 0.1   | 0    | 0    | 0.1  | 0.1  | 0.1  | 0.1  | 0    | 0.05 | 0.1  | 0.1   | 0.1   |
| CA | 0.15 | 0.1  | 0.15 | 0.1  | 0.1  | 0.1  | 0.15 | 0.15  | 0.1  | 0.1  | 0.15 | 0.15 | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.25  | 0.1   |
| CH | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.15  | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0.35  | 0     |
| CY | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| CZ | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.1   | 0    | 0    | 0.15 | 0    | 0    | 0    | 0    | 0    | 0    | 0.1   | 0     |
| DE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| DK | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| EE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| ES | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.15  | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0.1   | 0.1   |
| FI | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.15  | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0.15  | 0     |
| FR | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| GB | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.15  | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0.15  | 0     |
| GR | 0.1  | 0.25 | 0.08 | 0.1  | 0.08 | 0.1  | 0.1  | 0.1   | 0.08 | 0.1  | 0.25 | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.12  | 0.25  |
| HR | 0.1  | 0.15 | 0.15 | 0.1  | 0.15 | 0.1  | 0    | 0.15  | 0    | 0    | 0.15 | 0.1  | 0.15 | 0.1  | 0    | 0.15 | 0.1  | 0.1   | 0.15  |
| HU | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| IE | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0.1   | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0.2   | 0     |
| IT |      | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.125 | 0    | 0    | 0.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0.125 | 0.125 |
| JP | 0.1  |      | 0.1  | 0.2  | 0.1  | 0.2  | 0.2  | 0.15  | 0.1  | 0.1  | 0.15 | 0.1  | 0.2  | 0.1  | 0.1  | 0.2  | 0.1  | 0.15  | 0.1   |
| KR | 0.1  | 0.1  |      | 0.25 | 0.1  | 0.25 | 0.1  | 0.1   | 0.15 | 0.15 | 0.1  | 0.1  | 0.15 | 0.1  | 0.15 | 0.25 | 0.1  | 0.15  | 0.12  |
| LT | 0.1  | 0.1  | 0.1  |      | 0.1  | 0    | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1   |
| LU | 0    | 0    | 0    | 0    |      | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| LV | 0    | 0.05 | 0.05 | 0    | 0    |      | 0    | 0.05  | 0    | 0    | 0.05 | 0    | 0    | 0    | 0    | 0    | 0    | 0.05  | 0.05  |
| MT | 0    | 0    | 0    | 0    | 0    | 0    |      | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| MX | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  |       | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1   |
| NL | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| NO | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    |      | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0     |
| NZ | 0.1  | 0.15 | 0.1  | 0.15 | 0.15 | 0.15 | 0.15 | 0.15  | 0.1  | 0.1  |      | 0.1  | 0.15 | 0.15 | 0.1  | 0.15 | 0.15 | 0.15  | 0.1   |
| PL | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.15  | 0.05 | 0    | 0.1  |      | 0.1  | 0.1  | 0    | 0.1  | 0.1  | 0.1   | 0     |
| PT | 0.1  | 0.2  | 0.15 | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.2  | 0.1  |      | 0.1  | 0.1  | 0.1  | 0.1  | 0.15  | 0.1   |
| RO | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.05 | 0.15  | 0.03 | 0.1  | 0.15 | 0.1  | 0.1  |      | 0.1  | 0.05 | 0.1  | 0.1   | 0.1   |
| SE | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0    | 0     | 0     |
| SI | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    |      | 0    | 0     | 0     |
| SK | 0    | 0.1  | 0.1  | 0    | 0    | 0    | 0    | 0.19  | 0    | 0    | 0.19 | 0    | 0    | 0    | 0    | 0    |      | 0.1   | 0     |
| TR | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  | 0.1  |       | 0.1   |
| US | 0.15 | 0.1  | 0.12 | 0.1  | 0    | 0.1  | 0.3  | 0.15  | 0    | 0.1  | 0.1  | 0    | 0.1  | 0.1  | 0    | 0.05 | 0    | 0.15  |       |

Table 4. Expressions for international double tax rates

Expressions for the additional taxation of dividend and interest flows to investors on account of foreign ownership of a bank.  $t_i$  is the corporate income tax in the subsidiary country.  $t_p$  is the corporate income tax in the parent country.  $w_i^e$  is the nonresident withholding tax on dividends levied by the subsidiary country.  $w_i^d$  is the non-resident withholding tax on interest payments levied by the subsidiary country.

| Double tax relief method    | Dividends                                | Interest                 |
|-----------------------------|--|--------------------------|
| Exemption                   | $w_i^e - t_i w_i^e$                      | $w_i^d - t_p$            |
| Indirect foreign tax credit | $\max[t_i + w_i - t_i w_i^e, t_p] - t_i$ | $\max[w_i^d, t_p] - t_p$ |
| Direct foreign tax credit   | $(1 - t_i) \max[t_p, w_i^e]$             | $\max[w_i^d, t_p] - t_p$ |
| Deduction                   | $(1 - t_i)[1 - (1 - w_i^e)(1 - t_p)]$    | $w_i^d - t_p w_i^d$      |

Table 5. Summary statistics for foreign ownership of banks by country of residence

The foreign bank asset share is the share of the assets of foreign-owned banks in total assets of banks located in a country. Share of foreign banks in total is the share of foreign banks in the total number of banks.

| Country name   | Number of observations | Foreign bank asset share | Share of foreign banks in total |
|----------------|------------------------|--------------------------|---------------------------------|
| Australia      | 55                     | 0.023                    | 0.360                           |
| Austria        | 321                    | 0.022                    | 0.137                           |
| Belgium        | 172                    | 0.240                    | 0.265                           |
| Bulgaria       | 74                     | 0.483                    | 0.368                           |
| Canada         | 32                     | 0.383                    | 0.467                           |
| Croatia        | 79                     | 0.632                    | 0.392                           |
| Cyprus         | 20                     | 0.577                    | 0.355                           |
| Czech Republic | 85                     | 0.476                    | 0.375                           |
| Denmark        | 62                     | 0.034                    | 0.151                           |
| Estonia        | 15                     | 0.965                    | 0.500                           |
| Finland        | 12                     | 0.719                    | 0.294                           |
| France         | 772                    | 0.077                    | 0.148                           |
| Germany        | 815                    | 0.037                    | 0.164                           |
| Greece         | 19                     | 0.073                    | 0.424                           |
| Hungary        | 63                     | 0.339                    | 0.471                           |
| Ireland        | 75                     | 0.146                    | 0.460                           |
| Italy          | 491                    | 0.029                    | 0.047                           |
| Japan          | 75                     | 0.109                    | 0.272                           |
| Korea, Rep. Of | 57                     | 0.109                    | 0.186                           |
| Latvia         | 35                     | 0.497                    | 0.407                           |
| Lithuania      | 17                     | 0.800                    | 0.485                           |
| Luxembourg     | 416                    | 0.672                    | 0.476                           |
| Malta          | 3                      | 0.395                    | 0.500                           |
| Mexico         | 50                     | 0.065                    | 0.254                           |
| Netherlands    | 79                     | 0.036                    | 0.336                           |
| New Zealand    | 11                     | 0.017                    | 0.083                           |
| Norway         | 18                     | 0.157                    | 0.182                           |
| Poland         | 99                     | 0.428                    | 0.424                           |
| Portugal       | 59                     | 0.057                    | 0.213                           |
| Romania        | 63                     | 0.401                    | 0.452                           |
| Slovakia       | 34                     | 0.358                    | 0.469                           |
| Slovenia       | 27                     | 0.155                    | 0.357                           |
| Spain          | 92                     | 0.020                    | 0.252                           |
| Sweden         | 16                     | 0.190                    | 0.273                           |
| Switzerland    | 646                    | 0.082                    | 0.314                           |
| Turkey         | 39                     | 0.065                    | 0.304                           |
| United Kingdom | 270                    | 0.085                    | 0.262                           |
| USA            | 4,461                  | 0.012                    | 0.036                           |
| Total          | 9,729                  | 0.095                    | 0.180                           |

Table 6. Mean values of tax related variables for banks by country of residence

Host country corporate tax is corporate income tax rate in bank country of residence. Dividend double tax is the double tax rate on repatriated dividend income. Interest double tax is double tax rate for interest income.

| Country name   | Number of obs. | Host country corporate tax | All banks           |                     | Foreign banks       |                     |
|----------------|----------------|----------------------------|---------------------|---------------------|---------------------|---------------------|
|                |                |                            | Dividend double tax | Interest double tax | Dividend double tax | Interest double tax |
| Australia      | 55             | 0.313                      | 0.06                | 0                   | 0.106               | 0                   |
| Austria        | 321            | 0.292                      | 0.007               | 0                   | 0.047               | 0                   |
| Belgium        | 172            | 0.369                      | 0.004               | 0                   | 0.012               | 0                   |
| Bulgaria       | 74             | 0.174                      | 0.055               | 0                   | 0.095               | 0                   |
| Canada         | 32             | 0.339                      | 0.064               | 0                   | 0.073               | 0                   |
| Croatia        | 79             | 0.215                      | 0.025               | 0                   | 0.039               | 0                   |
| Cyprus         | 20             | 0.163                      | 0.034               | 0.007               | 0.062               | 0.017               |
| Czech Republic | 85             | 0.272                      | 0.017               | 0                   | 0.028               | 0                   |
| Denmark        | 62             | 0.274                      | 0.002               | 0                   | 0.012               | 0                   |
| Estonia        | 15             | 0.246                      | 0.022               | 0                   | 0.022               | 0                   |
| Finland        | 12             | 0.265                      | 0                   | 0                   | 0                   | 0                   |
| France         | 772            | 0.351                      | 0.003               | 0                   | 0.015               | 0                   |
| Germany        | 815            | 0.396                      | 0.004               | 0                   | 0.022               | 0                   |
| Greece         | 19             | 0.293                      | 0.007               | 0                   | 0.009               | 0                   |
| Hungary        | 63             | 0.17                       | 0.044               | 0                   | 0.05                | 0                   |
| Ireland        | 75             | 0.118                      | 0.03                | 0                   | 0.035               | 0                   |
| Italy          | 491            | 0.38                       | 0                   | 0                   | 0.006               | 0                   |
| Japan          | 75             | 0.421                      | 0.022               | 0                   | 0.06                | 0                   |
| Korea, Rep. Of | 57             | 0.283                      | 0.017               | 0                   | 0.076               | 0                   |
| Latvia         | 35             | 0.18                       | 0.026               | 0                   | 0.038               | 0                   |
| Lithuania      | 17             | 0.177                      | 0.002               | 0                   | 0.002               | 0                   |
| Luxembourg     | 416            | 0.33                       | 0.012               | 0                   | 0.013               | 0                   |
| Malta          | 3              | 0.35                       | 0                   | 0                   | 0                   | 0                   |
| Mexico         | 50             | 0.336                      | 0.008               | 0                   | 0.023               | 0                   |
| Netherlands    | 79             | 0.325                      | 0.024               | 0                   | 0.047               | 0                   |
| New Zealand    | 11             | 0.316                      | 0.01                | 0                   | 0.111               | 0                   |
| Norway         | 18             | 0.28                       | 0.006               | 0                   | 0.027               | 0                   |
| Poland         | 99             | 0.218                      | 0.018               | 0                   | 0.025               | 0                   |
| Portugal       | 59             | 0.309                      | 0.003               | 0                   | 0.013               | 0                   |
| Romania        | 63             | 0.217                      | 0.083               | 0                   | 0.1                 | 0                   |
| Slovakia       | 34             | 0.215                      | 0.039               | 0                   | 0.045               | 0                   |
| Slovenia       | 27             | 0.244                      | 0.008               | 0                   | 0.015               | 0                   |
| Spain          | 92             | 0.349                      | 0.004               | 0                   | 0.011               | 0                   |
| Sweden         | 16             | 0.28                       | 0.012               | 0                   | 0.033               | 0                   |
| Switzerland    | 646            | 0.235                      | 0.024               | 0.000               | 0.052               | 0.000               |
| Turkey         | 39             | 0.26                       | 0.057               | 0                   | 0.13                | 0                   |

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|                |       |       |       |       |       |       |
|----------------|-------|-------|-------|-------|-------|-------|
| United Kingdom | 270   | 0.299 | 0.004 | 0     | 0.011 | 0     |
| USA            | 4,461 | 0.394 | 0.002 | 0     | 0.047 | 0     |
| Total          | 9,729 | 0.361 | 0.008 | 0.000 | 0.035 | 0.000 |

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Table 7. Summary statistics for variables in net interest revenue and profitability regressions

See the Appendix for variable definitions

| Variable                             | Number of observations | Average | Std. dev. | Minimum | Maximum |
|--------------------------------------|------------------------|---------|-----------|---------|---------|
| Net interest revenue over assets     | 9729                   | 0.028   | 0.018     | -0.019  | 0.316   |
| Pret-tax profits over assets         | 8892                   | 0.013   | 0.017     | -0.02   | 0.263   |
| Taxes over assets                    | 9471                   | 0.004   | 0.007     | -0.1    | 0.203   |
| Post-tax profits over assets         | 8738                   | 0.01    | 0.013     | -0.166  | 0.213   |
| Host country corporate tax           | 9729                   | 0.352   | 0.069     | 0.100   | 0.501   |
| Parent country corporate tax         | 9729                   | 0.074   | 0.144     | 0       | 0.501   |
| Dividend double tax                  | 9729                   | 0.008   | 0.025     | 0       | 0.290   |
| Interest double tax                  | 9729                   | 0.000   | 0.002     | 0       | 0.189   |
| Assets                               | 9729                   | 7.023   | 1.979     | -0.819  | 14.15   |
| Earning assets over assets           | 9729                   | 0.920   | 0.075     | 0       | 1       |
| Foreign                              | 9729                   | 0.219   | 0.414     | 0       | 1       |
| Share of foreign ownership           | 9729                   | 0.095   | 0.189     | 0       | 1       |
| Market share                         | 9729                   | 0.011   | 0.046     | 0       | 1       |
| Top 5 market share                   | 9729                   | 0.364   | 0.188     | 0.138   | 1       |
| GDP per capita                       | 9729                   | 10.213  | 0.57      | 7.388   | 10.936  |
| Industrial growth rate               | 9729                   | 0.010   | 0.019     | -0.072  | 0.350   |
| Inflation                            | 9729                   | 0.028   | 0.023     | -0.009  | 0.458   |
| Real interest rate                   | 9729                   | 0.021   | 0.032     | -0.148  | 0.305   |
| Host country corporate tax * Foreign | 9729                   | 0.065   | 0.129     | 0       | 0.501   |



Table 8. Results of net interest revenue and profitability regressions

The dependent variables are listed at the top of the table. See the Appendix for variable definitions. Regressions include fixed effects for country of residence and year fixed effects. Standard errors are robust to clustering at the bank level and provided in parentheses. \* denotes significance at 10 %; \*\* asignificance at 5%; \*\*\* significance at 1%..

| Variables                  | (1)<br>Net interest<br>revenue<br>over<br>assets | (2)<br>Pre-tax<br>profits<br>over<br>assets | (3)<br>Taxes<br>over<br>assets | (4)<br>Post-tax<br>profits<br>over<br>Assets |
|----------------------------|--|---|--------------------------------|--|
| Host country corporate tax | -0.015<br>(0.010)                                | -0.028***<br>(0.008)                        | -0.007**<br>(0.003)            | -0.023***<br>(0.006)                         |
| Dividend double tax        | 0.035**<br>(0.016)                               | 0.010<br>(0.016)                            | -0.004<br>(0.006)              | 0.013<br>(0.013)                             |
| Assets                     | -0.002***<br>(0.000)                             | -0.001***<br>(0.000)                        | -0.000***<br>(0.000)           | -0.001***<br>(0.000)                         |
| Earning assets over assets | 0.009<br>(0.006)                                 | -0.043***<br>(0.009)                        | -0.013***<br>(0.003)           | -0.029***<br>(0.006)                         |
| Foreign                    | -0.003**<br>(0.001)                              | 0.001<br>(0.001)                            | -0.000<br>(0.000)              | 0.000<br>(0.001)                             |
| Share of foreign ownership | 0.003<br>(0.003)                                 | 0.003<br>(0.003)                            | 0.001<br>(0.001)               | 0.002<br>(0.002)                             |
| Market share               | 0.010*<br>(0.006)                                | 0.018***<br>(0.006)                         | 0.002<br>(0.002)               | 0.015***<br>(0.005)                          |
| Top 5 market share         | 0.001<br>(0.002)                                 | 0.000<br>(0.003)                            | -0.001<br>(0.001)              | -0.000<br>(0.002)                            |
| GDP per capita             | 0.007<br>(0.008)                                 | 0.007<br>(0.006)                            | 0.006**<br>(0.003)             | 0.002<br>(0.005)                             |
| Industrial growth rate     | 0.117***<br>(0.028)                              | 0.040<br>(0.026)                            | 0.017*<br>(0.009)              | 0.012<br>(0.019)                             |
| Inflation rate             | 0.079***<br>(0.022)                              | 0.061***<br>(0.019)                         | 0.027***<br>(0.008)            | 0.044***<br>(0.015)                          |
| Real interest rate         | -0.009<br>(0.008)                                | 0.022**<br>(0.010)                          | 0.006<br>(0.003)               | 0.013<br>(0.008)                             |
| Observations               | 9731   | 8893  | 9495                           | 8739   |
| R-squared                  | 0.268  | 0.120                                       | 0.082                          | 0.121  |

Table 9. Net interest revenue and profitability regressions with tax incentives for profit shifting

The dependent variables are listed at the top of the table. See the Appendix for variable definitions. Regressions include fixed effects for country of residence and year fixed effects. Standard errors are robust to clustering at the bank level and provided in parentheses. \* denotes significance at 10 %; \*\* asignificance at 5%; \*\*\* significance at 1%..

| Variables                    | (1)<br>Net interest<br>revenue<br>over<br>assets | (2)<br>Pre-tax<br>profits<br>over<br>assets | (3)<br>Taxes<br>over<br>assets | (4)<br>Post-tax<br>profits<br>over<br>assets |
|------------------------------|--|---|--------------------------------|--|
| Host country corporate tax   | -0.014<br>(0.010)                                | -0.025***<br>(0.008)                        | -0.008**<br>(0.003)            | -0.021***<br>(0.006)                         |
| Dividend double tax          | 0.034**<br>(0.016)                               | 0.006<br>(0.015)                            | -0.005<br>(0.006)              | 0.011<br>(0.012)                             |
| Assets                       | -0.002***<br>(0.000)                             | -0.001***<br>(0.000)                        | -0.000***<br>(0.000)           | -0.001***<br>(0.000)                         |
| Earning assets over assets   | 0.009<br>(0.006)                                 | -0.043***<br>(0.009)                        | -0.013***<br>(0.003)           | -0.029***<br>(0.006)                         |
| Foreign                      | -0.002<br>(0.005)                                | -0.001<br>(0.004)                           | -0.002<br>(0.001)              | -0.001<br>(0.003)                            |
| Share of foreign ownership   | 0.003<br>(0.003)                                 | 0.003<br>(0.003)                            | 0.001<br>(0.001)               | 0.002<br>(0.002)                             |
| Market share                 | 0.010*<br>(0.006)                                | 0.018***<br>(0.006)                         | 0.003<br>(0.002)               | 0.015***<br>(0.005)                          |
| Top 5 market share           | 0.001<br>(0.002)                                 | 0.000<br>(0.003)                            | -0.001<br>(0.001)              | -0.001<br>(0.002)                            |
| GDP per capita               | 0.007<br>(0.008)                                 | 0.008<br>(0.007)                            | 0.007**<br>(0.003)             | 0.003<br>(0.006)                             |
| Industrial growth rate       | 0.118***<br>(0.028)                              | 0.042<br>(0.026)                            | 0.017**<br>(0.009)             | 0.013<br>(0.020)                             |
| Inflation rate               | 0.079***<br>(0.021)                              | 0.062***<br>(0.019)                         | 0.026***<br>(0.008)            | 0.044***<br>(0.016)                          |
| Real interest rate           | -0.009<br>(0.008)                                | 0.021**<br>(0.010)                          | 0.005<br>(0.003)               | 0.013<br>(0.008)                             |
| Host country tax * foreign   | -0.003<br>(0.013)                                | -0.012<br>(0.011)                           | 0.000<br>(0.003)               | -0.007<br>(0.009)                            |
| Parent country corporate tax | 0.001<br>(0.007)                                 | 0.017**<br>(0.008)                          | 0.006**<br>(0.003)             | 0.010<br>(0.006)                             |
| Observations                 | 9729   | 8892  | 9493                           | 8738   |
| R-squared                    | 0.268  | 0.121                                       | 0.083                          | 0.121  |

Table 10. Results of net interest revenue and profitability regressions for EU banks

The dependent variables are listed at the top of the table. See the Appendix for variable definitions. Sample is restricted to banks located in the EU and owned by shareholders resident in the EU. Regressions include fixed effects for country of residence and year fixed effects. Standard errors are robust to clustering at the bank level and provided in parentheses. \* denotes significance at 10 %; \*\* asignificance at 5%; \*\*\* significance at 1%..

| Variables                  | (1)<br>Net interest<br>revenue<br>over<br>assets | (2)<br>Pre-tax<br>profits<br>over<br>assets | (3)<br>Taxes<br>over<br>assets | (4)<br>Post-tax<br>profits<br>over<br>assets |
|----------------------------|--|---|--------------------------------|--|
| Host country corporate tax | -0.006<br>(0.013)                                | 0.013<br>(0.008)                            | -0.004<br>(0.006)              | 0.014*<br>(0.008)                            |
| Dividend double tax        | 0.032**<br>(0.015)                               | 0.034**<br>(0.016)                          | 0.002<br>(0.006)               | 0.035***<br>(0.013)                          |
| Assets                     | -0.003***<br>(0.000)                             | -0.002***<br>(0.000)                        | -0.001***<br>(0.000)           | -0.001***<br>(0.000)                         |
| Earning assets over assets | -0.002<br>(0.014)                                | -0.034***<br>(0.011)                        | -0.011***<br>(0.004)           | -0.024***<br>(0.007)                         |
| Foreign                    | -0.002<br>(0.001)                                | -0.001<br>(0.001)                           | -0.001**<br>(0.000)            | -0.000<br>(0.001)                            |
| Share of foreign ownership | 0.008**<br>(0.003)                               | 0.002<br>(0.004)                            | 0.001<br>(0.001)               | 0.001<br>(0.003)                             |
| Market share               | 0.024***<br>(0.008)                              | 0.024***<br>(0.006)                         | 0.008***<br>(0.002)            | 0.019***<br>(0.006)                          |
| Top 5 market share         | 0.003<br>(0.004)                                 | 0.001<br>(0.003)                            | -0.001<br>(0.001)              | 0.001<br>(0.003)                             |
| GDP per capita             | 0.007<br>(0.011)                                 | -0.003<br>(0.010)                           | 0.005<br>(0.007)               | -0.010<br>(0.008)                            |
| Industrial growth rate     | 0.133*<br>(0.069)                                | 0.062<br>(0.072)                            | 0.055*<br>(0.031)              | 0.041<br>(0.060)                             |
| Inflation rate             | 0.095<br>(0.085)                                 | 0.055<br>(0.085)                            | 0.065*<br>(0.037)              | 0.033<br>(0.074)                             |
| Real interest rate         | 0.004<br>(0.014)                                 | -0.011<br>(0.012)                           | -0.005<br>(0.006)              | -0.012<br>(0.010)                            |
| Observations               | 3588   | 3118  | 3444                           | 3025   |
| R-squared                  | 0.196  | 0.114                                       | 0.095                          | 0.107  |

Table 11. Summary statistics for variables in FDI regressions

See the Appendix for variable definitions.

| Variable                     | Obs    | Mean     | Std. dev. | Min       | Max      |
|------------------------------|--------|----------|-----------|-----------|----------|
| Foreign owned banks          | 11,372 | .1992613 | 1.273947  | 0         | 107      |
| Foreign owned bank assets    | 11,372 | 1627.294 | 19942.27  | 0         | 1090878  |
| Host country corporate tax   | 11,372 | .2901778 | .0768292  | .1        | .5007907 |
| Parent country corporate tax | 11,372 | .2895603 | .0777944  | .1        | .5007907 |
| Dividend double tax          | 11,372 | .0586019 | .0667328  | 0         | .31005   |
| Interest double tax          | 11,372 | .0017425 | .0142037  | 0         | .25      |
| Distance                     | 11,372 | 7.778602 | 1.122601  | 4.087945  | 9.88258  |
| Contiguity                   | 11,372 | .0676222 | .2511076  | 0         | 1        |
| Common official language     | 11,372 | .0601477 | .2377708  | 0         | 1        |
| Intra EU                     | 11,372 | .5195216 | .4996407  | 0         | 1        |
| Host GDP                     | 11,372 | 4.984257 | 1.846082  | 1.29796   | 9.349276 |
| Parent GDP                   | 11,372 | 5.187142 | 1.804899  | 1.726937  | 9.349276 |
| Host regulatory quality      | 11,372 | 1.171318 | .4948978  | -.1190645 | 2.011307 |
| Parent regulatory quality    | 11,372 | 1.237816 | .4443741  | .0447519  | 2.011307 |
| Host capital controls        | 11,372 | 4.330593 | 2.667562  | .8000002  | 10       |
| Parent capital controls      | 11,372 | 4.185587 | 2.523028  | .8000002  | 10       |

Table 12. Results of regressions of foreign banking assets on bilateral basis

The dependent variable in regressions (1) and (3) is assets of banks located in a host country and owned by a parent country in a particular year in millions of constant US 2000 dollars. The dependent variable in regressions (2) and (4) is the number of banks located in a host country and owned by a parent country in a particular year. See the Appendix for variable definitions. All regressions are Poisson regressions accounting for host country, parent country and year fixed effects. Standard errors are robust to clustering at the host country level and provided in parentheses. \* denotes significance at 10 %; \*\* asignificance at 5%; \*\*\* significance at 1%.

| Variables                            | (1)<br>Assets                          | (2)<br>Frequency                         | (3)<br>Assets<br>Intra-EU | (4)<br>Frequency<br>Intra-EU |
|--------------------------------------|--|--|---------------------------|------------------------------|
| Host country corporate income tax    | 0.867<br>(4.602)                       | -1.468<br>(1.861)                        | 4.376<br>(3.312)          | 2.753<br>(2.222)             |
| Dividend double tax                  | -7.124**<br>(2.780)                    | -3.150**<br>(1.484)                      | -13.639**<br>(6.524)      | -3.074<br>(2.926)            |
| Interest double tax                  | -18.224<br>(17.669)                    | -10.350<br>(12.212)                      |                           |                              |
| Distance                             | -0.721***<br>(0.212)                   | -0.665***<br>(0.168)                     | -1.083***<br>(0.290)      | -0.860***<br>(0.188)         |
| Contiguity                           | 0.686<br>(0.775)                       | 0.249<br>(0.360)                         | 0.105<br>(0.523)          | 1.003***<br>(0.301)          |
| Common official language<br>Intra EU | -0.016<br>(0.585)<br>-0.044<br>(0.665) | -0.053<br>(0.148)<br>-0.561**<br>(0.270) | 1.794***<br>(0.663)       | -0.338<br>(0.338)            |
| Host GDP                             | 2.438<br>(2.152)                       | 3.508***<br>(1.284)                      | -2.065<br>(2.009)         | -0.078<br>(1.582)            |
| Parent GDP                           | 1.495<br>(3.784)                       | 1.732*<br>(1.002)                        | 2.541<br>(3.478)          | -0.101<br>(1.277)            |
| Host regulatory quality              | -3.619**<br>(1.417)                    | -1.157*<br>(0.671)                       | -1.168*<br>(0.625)        | -0.815*<br>(0.417)           |
| Parent regulatory quality            | -1.329<br>(1.221)                      | 0.019<br>(0.222)                         | 0.349<br>(1.115)          | 0.172<br>(0.386)             |
| Host capital controls                | -0.142*<br>(0.086)                     | -0.039<br>(0.036)                        | -0.120<br>(0.079)         | 0.015<br>(0.047)             |
| Parent capital controls              | 0.004<br>(0.093)                       | -0.016<br>(0.050)                        | 0.046<br>(0.099)          | 0.047<br>(0.043)             |
| Number of observations               | 11372                                  | 11372                                    | 3428                      | 3428                         |

## Appendix. Variable description and data sources

| Variable                         | Definition  | Data sources  |
|----------------------------------|---|---|
| Net interest revenue over assets | Bank's net interest revenue over total assets   | Bureau van Dijk's Bankscope database  |
| Pre-tax profits over assets      | Bank's pre-tax profits over total assets  | Bureau van Dijk's Bankscope database  |
| Post-tax profits over assets     | Bank's post-tax profits over total assets   | Bureau van Dijk's Bankscope database  |
| Taxes over assets                | Bank's taxes over total assets  | Bureau van Dijk's Bankscope database  |
| Host country corporate tax       | Corporate income tax rate in bank country of residence  | Eurostat (2004), KPMG International (2009), and Loretz (2008)                       |
| Parent country corporate tax     | Corporate income tax rate in parent firm country of residence   | As for the host country corporate income tax  |
| Dividend double tax              | Double tax rate on repatriated dividend income  | As for the host country corporate income tax plus IBFD (2009a, 2009b, 2009c, 2009d) |
| Interest double tax              | Double tax rate for interest income   | As for the dividend double tax  |
| Assets                           | Bank's total assets in millions of constant 2000 US dollars (logarithm)   | Bureau van Dijk's Bankscope database  |
| Earning assets over assets       | Bank's total earning assets over total assets   | Bureau van Dijk's Bankscope database  |
| Foreign                          | Dummy variable indicating if at least 50 percent of shares are owned by shareholders in single foreign country  | Bureau van Dijk's Bankscope database  |
| Market share                     | Bank's total loans as a share of all loans provided by banks in a country   | Bureau van Dijk's Bankscope database  |
| Top 5 market share               | Loan market share of the 5 largest loan-providing banks relative to all loans provided by banks in a country  | Bureau van Dijk's Bankscope database  |
| GDP per capita                   | Gross domestic product of bank country of residence in billions of constant 2000 US dollars (logarithm)   | World Development Indicators 2009, World Bank (2009)                                |
| Industrial growth rate           | Rate of change of industrial production growth index  | International Financial Statistics  |
| Inflation rate                   | Rate of change in the consumer price index  | World Development Indicators 2009, World Bank (2009)                                |
| Real interest rate               | Money market rate minus inflation rate  | World Development Indicators 2009, World Bank (2009)                                |
| Foreign owned banks              | Number of banks located in a host country and owned by a parent country in a particular year  | Bureau van Dijk's Bankscope database  |
| Foreign owned bank assets        | Sum of the assets of banks located in a host country and owned by a parent country in a particular year in millions of constant US 2000 dollars (logarithm) | Bureau van Dijk's Bankscope database  |
| Distance                         | Distance between two countries' most populated agglomerations in km (logarithm)   | Head and Mayer (2002)   |
| Contiguity                       | Dummy variable indicating whether two countries are contiguous  | Head and Mayer (2002)   |

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| Common official language  | Dummy variable indicating whether two countries share a common official language   | Head and Mayer (2002)                                |
| Intra EU                  | Dummy variable indicating whether two countries are both EU members in a given year  | Head and Mayer (2002)                                |
| Host GDP                  | Gross domestic product of the bank country of residence in billions of constant 2000 US dollars (logarithm)  | World Development Indicators 2009, World Bank (2009) |
| Parent GDP                | Gross domestic product of the parent firm country of residence in billions of constant 2000 US dollars (logarithm)   | World Development Indicators 2009, World Bank (2009) |
| Host regulatory quality   | Indicator capturing perceptions of the ability of the government of host country to formulate and implement sound policies and regulations that permit and promote private sector development. Values range from -2.5 to 2.5, with higher values corresponding to better perceptions.              | Kaufman et al. (2009)                                |
| Parent regulatory quality | Indicator capturing perceptions of the ability of the government of the parent firm's country to formulate and implement sound policies and regulations that permit and promote private sector development. Values range from -2.5 to 2.5, with higher values corresponding to better perceptions. | Kaufman et al. (2009)                                |
| Host capital controls     | Indicator of the percentage of capital controls levied by host country as a share of the total number of capital controls covered by the International Monetary Fund. Values range from 0 to 10, with higher values corresponding with more capital controls.                                      | Gwartney et al. (2009)                               |
| Parent capital controls   | Indicator of the percentage of capital controls levied by parent firm country as a share of the total number of capital controls covered by the International Monetary Fund. Values range from 0 to 10, with higher values corresponding with more capital controls.                               | Gwartney et al. (2009)                               |

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