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Switzerland 0 – 1 Italy

Italy's tax amnesty (known locally as the *scudo fiscale*, or fiscal shield) has been more successful than many expected, generating €95 billion (\$129 billion) of newly declared assets between mid-September and mid-December 2009. Estimates of Italy's offshore assets vary widely, but this may amount to some 20 percent to 30 percent of the total. And this will rise further as investors enter extra time, with the amnesty extended to the end of this month.

Like its football team, Italy has become something of a world leader in tax amnesties – this is its third, and most successful, in eight years. Key to its success has been the very low one-off penalty fee of 5 percent, albeit upped to 7 percent for those who wait until March/April to declare. In comparison, the UK's recent global offshore amnesty charged 20 years of tax at 10 percent, plus interest.

Retention of anonymity, including the accepted use of vehicles such as trusts (*fiduciaria*) and unit-linked life policies, has also played an important part, as has administrative simplicity.

Switzerland accounts for 70 percent of the declared assets, so it is natural to think of this as an easy away win for Italy. But that figure overstates the initial direct impact on Swiss-based banks.

First, this represents less than 5 percent of Switzerland's estimated total offshore assets. Second, only around 41 percent of the total declared assets have been physically repatriated. Instead, under the terms of the amnesty, clients with offshore assets in Switzerland (and other non-EU countries) can opt for juridical repatriation – placing the assets in the custody/management of Italian-authorized institutions in Switzerland; trust structures also enable Swiss-based banks to continue to manage the assets.

Third, many of the large Swiss players are able to capture some of the physically repatriated assets by rebooking them in their Italian onshore units. Hence, Credit Suisse was initially able to retain around 66 percent of the declared assets, UBS 63 percent and Julius Baer 60 percent – albeit at lower margins.

On the other hand, the smaller Ticino-based banks are particularly exposed, and the amnesty is forcing major strategic rethinks – those that remain in the game will need to sharpen their investment performance, advisory capabilities, service quality and pricing.

Luxembourg (9 percent), Monaco (5 percent) and San Marino (4 percent) are the other key source geographies for the newly declared



assets. But given their greater concentration of Italian offshore assets, the amnesty is having a bigger impact than in Switzerland. San Marino now faces its worst crisis since the war and urgently needs to overhaul its entire economic model as the amnesty drained 24 percent of its deposits, compounding various other, more home-grown, problems.

For Italian-based institutions, the amnesty has clearly been music to their ears. The individual repatriated amounts are estimated to average around €550,000, which is significantly down on previous amnesties.

Small players are said to have benefited more this time than the large banks; which has translated into strong equity price gains among banks including Banca Generali and Azimut. But again, it is easy to get carried away.

The vast majority of the physically repatriated assets are currently sitting in low-margin deposit accounts, and it remains to be seen how much will be converted into managed assets. Anecdotal evidence suggests that a good proportion of the returning assets will end up being redeployed in under-capitalised family businesses.

Overall then, the Italian tax amnesty's impact on Swiss private banking is less than headlines suggest. Over time, some of the repatriated assets are likely to seep back across the border; and repeated amnesties with low penalties do not exactly send a strong anti-tax evasion message.

Italy has scored a quick legitimate goal against Switzerland, but the match could result in a score draw over the longer term. ■ ■

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