Table 1: Final withholding taxes on Italian financial assets

Instruments	Tax treatment	Rate	Frequency of Assessment
Sight deposits **Time depositsc(<18 months)**		30.0% 25.0%	Annual
Certificates of deposit < 3 months >3 and <18 months > 18 months	Withholding tax	 30.0% 25.0% 12.5%	Annual
Commercial paper	Withholding tax	15.0%	Annual
Bankers' acceptances	Withholding tax	15.0%	Annual
Italian government bonds	Withholding tax	12.5%	Annual accrued daily
Bonds issued by special credit institutions	Withholding tax	12.5%	Annual
Bonds issued by qualifying international institutions (e.g. IBRD, EIB etc.)	Withholding tax	exempt	Annual
Corporate bonds listed companies convertible non-listed companies	Withholding tax	 12.5% 12.5% 30.0%	Annual
Mutual funds	Wealth tax	0.25%	Annual accrued daily
"Atypical" instruments	Withholding tax	30.0%	Annual
Preferred ("savings") share dividends	Withholding tax	15.0%	Annual
Ordinary dividends	Personal income tax with tax credit	10-52%	Annual
Life assurance	Premiums deductible from income tax up to ceiling; Special tax withholding	10-52%	Deferred until maturity

Table 2: Distribution of Italian Households' Financial Assets: 1980-2000

(in percentages)

	1980	1985	1990	1995	2000
Currency and sight deposits[1]	27.47	20.76	12.10	18.86	14.64
Other Deposits	36.72	28.11	23.72	21.29	9.93
Bills and short-term notes	9.28	13.60	13.21	9.63	0.98
Bonds	7.95	17.91	18.82	21.08	18.86
Shares and other participations	10.04	10.77	20.21	14.36	25.41
of which domestic listed shares	n.a	n.a	n.a	n.a	*9.06*
Mutual funds		3.36	2.41	4.00	17.23
of which: domestic		n.a	n.a	3.66	15.49
Foreign		n.a	n.a	0.34	1.74
Life insurance[2]	5.97	5.26	9.13	10.34	12.52
Other financial assets	2.58	0.22	0.38	0.44	0.43
TOTAL	100.00	100.00	100.00	100.00	100.00
Memo:**Financial assets held in managed accounts**					11.74[3]

Source: Banca d'Italia

The data exhibit major breaks in series. In 1990, the definition of "shares and other participations" was expanded to included unlisted equity holdings. The other major break in series occurred in 1995 and was due to the introduction of the new SEC national accounting which adopted end-period market valuations. At that date unincorporated businesses were excluded from the household sector. In addition there are a number of minor breaks in series, such as those regarding life insurance policies and the breakdown for shares listed on stock exchanges.

[1] As of 1995 free savings deposits have been shifted from "other deposits" to "sight deposits".

[2] As of 1995 pension funds have been re-allocated from "other financial assets" to "life assurance

[3] Excluding life insurance and unlisted shares and participations managed portfolios accounted for 25% of households' financial assets.

Table 3: A comparison of the three tax regimes

Type of income	REGIME		
	Personal Income Tax	**Administered Accounts**	**Managed Accounts**
Capital Income 1. Basis of assessment 2. Computation and payment	Realisation. Capital income is reported in annual tax return but is subject to separate flat rate of tax. Dividends from qualified investment must be reported in annual tax return.	Realisation Authorised intermediary (custodian or administrator of account) withholds tax on each individual source of capital income.	n.a.
Other income (Capital Gains) 1. Basis of assessment 2. Computation and payment 3. Loss offsets	Realisation Gains and losses are reported in annual tax return but are subject to a separate flat rate of tax. Gains/losses on ordinary assets and "qualified" holdings are taxed separately. Capital losses can be fully offset against capital gains. Capital losses cannot be offset against capital income (i.e. dividends, interest etc.)	Realisation. Authorised intermediary (custodian or administrator of account) calculates gains and losses for each individual security held in account. Authorised intermediary can offset gains and losses in each account. Net gains in one account can be offset against net losses in another account if positions are declared in annual tax return. Capital losses cannot be offset against capital income (i.e. dividends, interest etc.).	n.a.
Operating income 1. Assessment 2. Computation	n.a	n.a	Accruals: Capital income and other income for each asset are calculated separately. The net income resulting from these two calculations is summed together. This value net of any costs (e.g. management fees and other expenses) is defined as operating income. Tax payment is net of any tax credits.
Tax rates	27%: income from "qualified" investments and from securities with an original maturity of less the 18 months. 12.5% all other income	27% : income from securities with an original of less the 18 months 12.5%: other income	12,5%
Carryforward provisions	4 years	4 years	4 years
"Equaliser"	Yes	Yes	No
Tax monitoring*	Yes	No	Yes
Anonymity	No	Yes, unless full loss offset across accounts is sought by declaring positions in annual tax return	Yes

* Tax authorities can question the data provided by taxpayers in their tax returns.

Table 4: Revenue from capital income and capital gains taxes in Italy

(in millions of Euro)

	1998	**1999**	**2000**
Witholding taxes on capital income	9,806	7,780	6,241
of which withholding tax on interest	5,743	3,459	3,696
Capital gains tax under the tax return and administered portfolio regimes	543	1,715	3,153
of which capital gains realised before July 98	338	335	42
capital gains realised after July 98	205	1,380	3,111
Tax on operating income	212	1,525	7,868
of which mutual funds	208	1,026	6,895
individual managed accounts	5	499	973
Total	**10,562**	**11,020**	**17,262**

Source: Ministry of the Economy and Finance

Table 5: Effective tax rates – holding period: five years

	Securities traded on regulated exchanges			Securities not traded on regulated exchanges			Foreign mutual funds regulated under the European Directive		
A. Riskless rate equal to mean return									
				Standard deviation (σ)					
Mean return (δ)	0.05	0.1	0.25	0.05	0.1	0.25	0.05	0.1	0.25
0.02	12.66%	12.98%	14.03%	12.56%	12.72%	13.28%	14.02%	16.95%	35.77%
0.03	12.61%	12.89%	13.91%	12.54%	12.66%	13.20%	13.86%	16.00%	29.23%
0.04	12.57%	12.82%	13.80%	12.54%	12.63%	13.13%	13.84%	15.58%	25.99%
0.05	12.55%	12.76%	13.70%	12.56%	12.61%	13.08%	13.88%	15.36%	24.08%
0.06	12.53%	12.71%	13.60%	12.58%	12.61%	13.03%	13.96%	15.26%	22.84%
0.07	12.52%	12.67%	13.51%	12.60%	12.63%	13.00%	14.06%	15.22%	21.97%
B. Riskless rate equal to 2%									
				Standard deviation (σ)					
Mean return (δ)	0.05	0.1	0.25	0.05	0.1	0.25	0.05	0.1	0.25
0.02	12.66%	12.98%	14.03%	12.56%	12.72%	13.28%	14.02%	16.95%	35.77%
0.03	12.36%	12.55%	13.22%	12.31%	12.40%	12.75%	13.86%	16.00%	29.23%
0.04	12.12%	12.24%	12.72%	12.10%	12.15%	12.39%	13.84%	15.58%	25.99%
0.05	11.90%	11.99%	12.35%	11.90%	11.93%	12.11%	13.88%	15.36%	24.08%
0.06	11.70%	11.76%	12.04%	11.71%	11.73%	11.86%	13.96%	15.26%	22.84%
0.07	11.51%	11.55%	11.78%	11.53%	11.54%	11.64%	14.06%	15.22%	21.97%

Table 6 Effective tax rates - holding period: ten years

	Securities traded on regulated exchanges			Securities not traded on regulated exchanges			Foreign mutual funds regulated under the European Directive		
A. Riskless rate equal to mean return									
	Standard deviation (σ)								
Mean return (δ)	0.05	0.1	0.25	0.05	0.1	0.25	0.05	0.1	0.25
0.02	12.75%	13.32%	15.63%	12.57%	12.78%	13.79%	14.04%	16.66%	33.68%
0.03	12.66%	13.14%	15.26%	12.59%	12.72%	13.60%	13.97%	15.97%	28.18%
0.04	12.60%	13.01%	14.97%	12.65%	12.72%	13.48%	14.01%	15.68%	25.55%
0.05	12.56%	12.90%	14.72%	12.73%	12.77%	13.41%	14.10%	15.56%	24.03%
0.06	12.54%	12.82%	14.51%	12.82%	12.85%	13.38%	14.23%	15.53%	23.05%
0.07	12.53%	12.75%	14.31%	12.94%	12.95%	13.39%	14.39%	15.56%	22.38%
B. Riskless rate equal to 2%									
	Standard deviation (σ)								
Mean return (δ)	0.05	0.1	0.25	0.05	0.1	0.25	0.05	0.1	0.25
0.02	12.75%	13.32%	15.63%	12.57%	12.78%	13.79%	14.04%	16.66%	33.68%
0.03	12.13%	12.45%	13.84%	12.09%	12.18%	12.76%	13.97%	15.97%	28.18%
0.04	11.63%	11.82%	12.78%	11.65%	11.69%	12.07%	14.01%	15.68%	25.55%
0.05	11.18%	11.31%	12.01%	11.24%	11.26%	11.53%	14.10%	15.56%	24.03%
0.06	10.77%	10.86%	11.39%	10.85%	10.87%	11.06%	14.23%	15.53%	23.05%
0.07	10.39%	10.45%	10.87%	10.49%	10.50%	10.64%	14.39%	15.56%	22.38%

Table 7. Effect of the equaliser on abnormal trading: dependent variable "standardised" abnormal trading volume in December 2000[a]

	All shares with *EQU* [a] >1	Shares with *EQU*>1 and with terminal value higher than value at 01/July/1998	Shares with *EQU*>1 and with terminal value lower than value at 01/July/1998
EQU	0.2366 (0.1325) [0.076]	0.4579 (0.1764) [0.011]	0.0380 (0.0670) [0.575]
Constant	-3.6945 (0.7647) [0.000]	-4.1122 (1.022) [0.000]	-2.9432 (0.6177) [0.000]
Observations	137	102	35
R-squared	0.0012	0.0109	0.0004

White-corrected standard errors and p-values respectively in round and squared brackets
[a]See text for definition of this variable

[a] When a share has appreciated in the period beginning July 1, 1998 and ending on December 31, 2000, the variable *EQU* measures the percentage increase in taxable income resulting from the "equaliser". It is defined as the ratio of the "equalised" tax liabilities to ordinary realisation based taxes. When the share price has fallen in the same period *EQU* measures the reduction in deductible losses resulting from the "equaliser". In this case it is defined as the *reciprocal* of the ratio of the "equalised" tax liabilities to ordinary realisation based taxes. When *EQU* is greater than one, investors have an incentive to realise their gains or losses and purchase the same security to create a new basis.