

The Effects of Tax On Bank Liability Structure

Leonardo Gambacorta, Giacomo Ricotti, Suresh M Sundaresan and Zhenyu Wang

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Literature, Theory and Testable Hypotheses

Taxes, Bank Leverage and Liability Structure

- Taxes represent first order frictions. Emerging empirical evidence strongly suggest that banks respond to changes in taxes by altering their leverage. Some recent research -
 - Panier, Pérez-González, and Villanueva (2016).
 - Schepens (2016).
 - Bond, et al (2015)
- Open issues: When tax rates change:
 - How do banks change their liability structure (deposits and non-deposit liabilities)
 - a) deposit protection,
 - b) insurance premium.
 - How do they adjust their assets in response to exogenous tax rate changes?
 - Risk-weighted assets (RWA).

Theory & Testable Implications

- We modify the dynamic model of bank liability structure, Sundaresan and Wang (2016), to reflect the insurance features of Italian Banks. This allows us to get the following comparative statics predictions in closed form:
- Testable Hypotheses [Some of the predictions follow from trade-off models]

H1: A reduction in the tax rate leads to an increase in the tangible equity ratio of a bank.

H2: A reduction in the tax rate leads to a reduction in the deposit ratio of a bank.

H3: A reduction in the tax rate leads to a reduction in the non-deposit ratio of a bank.

H4: A reduction in the tax rate leads to greater reduction in bond ratio than in deposit ratio of a bank. [This is due to deposits being cheaper].

Theory & Testable Implications

H5: A reduction in the tax rate leads to a narrowing of the cost of non-equity funding of a bank.

H6: A reduction in tax rates lead to an increase in the total credit portfolio in the assets of the banks. [This follows from the fact that the bank has higher after-tax cash flows].

We also explore how poorly capitalized banks respond to tax changes.

Summary of Results

Summary of Results

- Banks reduce their leverage in response to a reduction in tax rates: specifically, we find that a one percentage point reduction in the IRAP rate leads to about 0.15 percentage points increase in the ratio of tangible equity to total assets.
- Banks reduce their deposit liabilities less relative to non-deposit liabilities in response to a reduction in tax rates: a one percentage point reduction in the IRAP tax rate tends to cause a reduction of more than 0.39 percentage points in the non-deposit to total asset ratio. The effect of tax rate change on deposit ratio is however much smaller and not significant.
- The credit spreads of bank liabilities fall by 12 basis points in response to an exogenous one percent reduction in tax rates.

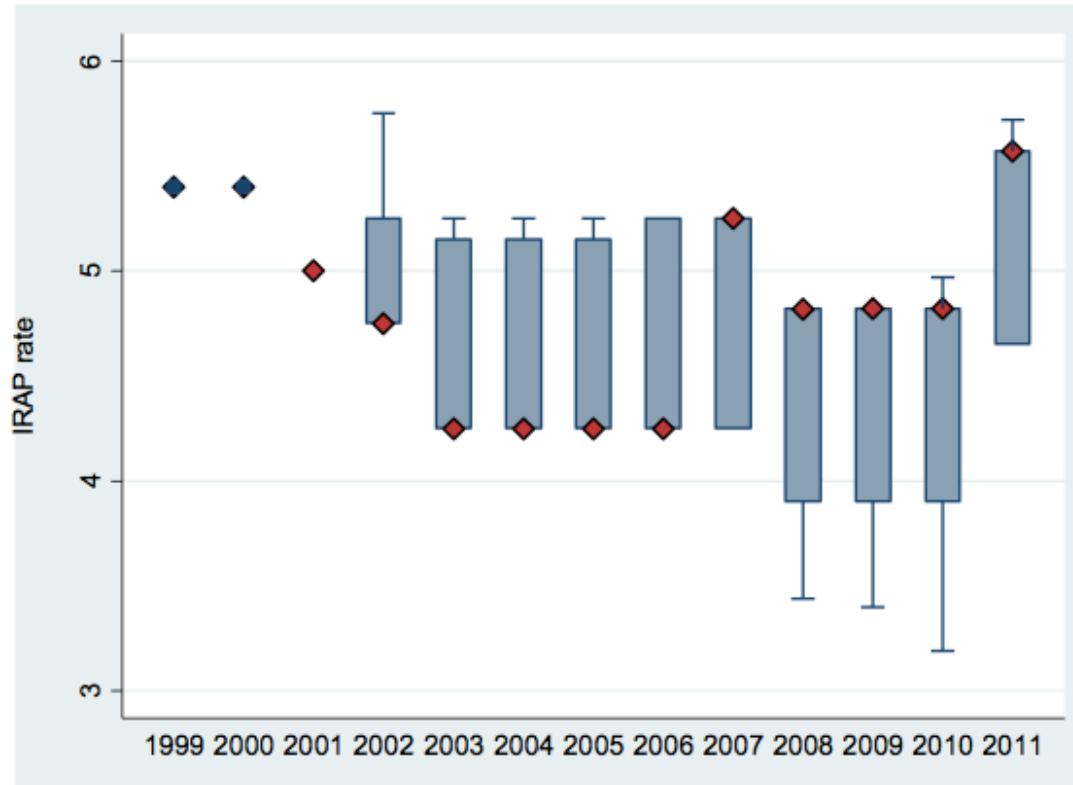
Summary of Results

- A one percentage point reduction in the IRAP tax rate leads to an increase in the bank credit to total asset ratio of around 0.83% without controlling for bank risk and regional macro conditions. Introducing such controls, we find that the impact is reduced to 0.51%. Banks also tend to increase security holdings and decrease bad loans.
- Weaker banks respond by:
 - De-levering more.
 - Reducing bad loans [90% significance level]
 - Decreasing their loan portfolio.

Data on Tax Rate Changes & Banks

Variations in Tax rates over time and across regions [To fund healthcare deficits]

Figure 1: Variation in IRAP tax rates



Note: Median is indicated using diamond marks. The box represents 25th percentile to 75th percentile and the end mark represents the maximum and the minimum.

- Median Tax rates experienced notable changes in Years 2001-2002, 2006-2007, 2007-2008, and 2010-2011.
- Cross-sectional variations in tax rates increased in the latter part of the sample period.
- No cross-sectional variations until 2002.

Year	IRAP tax rate (base)
1998-2000	5.40%
2001	5.00%
2002	4.75%
2003	4.25%
2008	3.90%
2011	4.65%

Nature of Banks in the sample

- Our study covers only cooperative credit banks, or CCBs, which support the development of the community where they operate. Regulations provide that CCBs can only conduct their business locally.
- CCBs are public companies even if they cannot be listed: social capital (not less than EUR 5 million) must be held by at least 200 shareholders who are resident or working in the area where each CCB operates. Another important purpose of CCBs is to operate in the interest of these partners or shareholders.
- CCBs cannot be part of a banking group.

Nature of Banks in the sample

- CCBs represent more than half of the banks operating in Italy.
- Though there has been a steady decrease in the number of CCBs (also because many have undergone M&A operations), at the end of 2013 there were 385 CCBs out of a total number of banks of 684.
- Due to their operational limits, they account only for about one-sixteenth of the total assets of the Italian banking system.
- In the Appendix to the paper, we give a fuller account of CCBs.

Table 2: Assets and liability composition for CCBs and Ltd Banks in Italy

	Mutual banks			Ltd Banks		
	1999	2005	2011	1999	2005	2011
Assets⁽¹⁾						
Loans to resident banks	6.3	5.5	4.9	12.1	17.6	11.1
Loans to public administration and other residents	58.8	71.8	73.9	60.8	56.0	56.2
Government bonds	28.6	18.7	14.6	5.4	3.2	5.2
Securities issued by residents	3.5	1.8	5.0	5.0	5.8	13.5
Shares issued by residents	0.9	1.0	0.9	4.6	4.7	3.7
Loans to non-residents and securities issued by non-residents	1.9	1.2	0.8	12.2	12.7	10.5
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Liabilities						
Deposits held in central bank and other resident banks	8.0	2.1	9.0	16.6	19.4	17.9
Deposits from public administration and other residents	58.8	56.7	48.0	36.0	35.6	38.9
Bonds	19.7	29.9	31.0	19.9	23.2	24.8
Foreign liabilities	0.2	0.2	0.2	17.0	13.0	7.7
Capital and reserves	13.4	11.1	11.8	10.5	8.9	10.7
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source:

Bank of Italy. Annual Report for 1999, 2005 and 2011. Statistical Annexes.

(1) Assets do not include cash, fixed assets and intangibles. These items represent a negligible part of total balance sheet items (less than 2% for the average Italian bank in the sample period).

Variable definitions and summary statistics

Variable definition	Obs.	Mean	Std. Dev.	Min	Max	Levels				First differences			
IRAP rate	4940	4.785	0.585	3.190	5.750	-0.012	0.406	-0.810	1.460	-0.285	1.063	-16.356	14.844
Equity/Total assets	4940	11.945	3.583	-0.765	27.163	0.889	3.042	-16.335	16.983	-0.808	3.593	-23.203	21.109
Bonds/Total assets	4940	24.591	12.085	0.004	69.023	0.711	4.319	-25.467	29.366	-1.046	4.233	-19.063	28.795
Deposits/Total assets	4940	50.428	12.142	15.644	89.694	1.027	4.021	-17.376	19.684	0.091	0.994	-18.485	11.152
Bank credit/Total assets (1)	4940	83.760	6.378	47.598	95.646	-0.002	0.143	-1.962	1.537	0.060	0.062	-1.214	0.411
Securities/Total assets	4940	21.858	9.865	0.753	65.573	-0.001	0.006	-0.095	0.122	0.007	0.006	-2.890	2.160
Performing loans/Total assets	4940	59.059	13.134	11.484	84.986	-0.195	0.714	0.059	0.705	0.655	0.142	0.012	0.059
Bad loans/ Total assets	4940	2.450	2.379	0.003	23.098	0.022	0.023	-0.070	0.069	0.007	0.006	-0.360	0.705
Total assets growth (2)	4940	0.093	0.107	-0.180	1.567	0.003	0.014	-0.050	0.043	0.008	0.009	-0.199	0.943
Bank size (3)	4940	19.062	0.962	16.215	22.817	0.008	0.084	-0.195	0.121	0.006	0.007	-2.890	2.160
ROE (4)	4940	0.060	0.062	-1.093	0.457	0.012	0.059	0.059	0.705	0.008	0.009	-1.214	0.411
ROA (5)	4940	0.007	0.006	-0.092	0.037	0.001	0.006	-0.095	0.122	0.006	0.007	-0.360	0.705
Cost of non-equity funding (6)	4940	2.121	0.713	0.860	4.490	0.008	0.084	-0.199	0.943	0.007	0.008	-2.890	2.160
RWA/Total assets (7)	4940	0.655	0.142	0.175	1.311	0.009	0.058	-1.214	0.411	0.006	0.007	-0.360	0.705
Log GDP at regional level	4940	12.158	0.874	8.714	13.800	0.025	0.198	-0.784	0.071	0.007	0.008	-0.360	0.705
Log GDP per capita at regional level	4940	10.136	0.264	9.418	10.471	0.022	0.023	-0.070	0.069	0.006	0.007	-0.360	0.705
Log Employment ratio at regional level	4940	-0.834	0.175	-1.274	-0.671	0.003	0.014	-0.050	0.043	0.005	0.006	-0.360	0.705

Notes: (1) Bank credit is the sum of securities, performing loans and bad loans. (2) Annual growth in percent. (3) Log of Total assets. (4) Profits before taxes to total equity and reserves in percentage points. (5) Profits before taxes to total assets in percentage points. (6) Weighted average cost of non-equity forms of funding (deposits and bonds). (7) Density function given by the ratio between risk weighted assets and total assets. (8) Employment ratio is given by total employed units over population in a region.

- Our database includes 462 mutual banks operating in different regions of the Italian territory.
- Sample period: 1999 to 2011

Empirical Specification & Results

Empirical Specification

$$y_{jit} = \gamma \cdot \Delta(\text{IRAP rate})_{\{jt-1\}} + \phi \cdot X_{ijt-1} + \mu_i + \theta_t + \varepsilon_{ijt}$$

- The direct costs of remunerating shareholders and the risk profile of banks, which affect banks' optimal capital decisions, are controlled for by means of bank-specific characteristics.
- The control variables are lagged one period to mitigate possible endogeneity problems. These bank- specific characteristics are denoted by vector X in the regression.
- We include a complete set of year fixed effects and bank-fixed effects.
- All results are based on regression of changes in the dependent variables.

H1: A reduction in the tax rate leads to an increase in tangible equity ratio of banks.

Table 4: Effects on equity over total assets

Variables	I: Baseline	II: Including macroeconomic regional controls	III: Including bank risk control
	Dep. variable: $\Delta(\text{Equity}/\text{Total assets})$	Dep. variable: $\Delta(\text{Equity}/\text{Total assets})$	Dep. variable: $\Delta(\text{Equity}/\text{Total assets})$
$\Delta(\text{IRAP rate})_{t-1}$	-0.1496*** (0.0545)	-0.1430** (0.0588)	-0.1520*** (0.0582)
$\Delta(\text{Bank total assets}^* \text{ growth})_{t-1}$	0.0014 (0.0013)	0.0013 (0.0013)	0.0005 (0.0012)
$\Delta(\text{ROE})_{t-1}$	0.0077 (0.0051)	0.0079 (0.0050)	0.0079 (0.0050)
$\Delta(\text{Comm\& Fees/Tot ass})_{t-1}$ (1)	-3.5696* (2.1039)	-3.5666* (2.1382)	-3.5782* (2.2426)
$\Delta(\text{RWA/Total assets})_{t-1}$ (2)			0.0033 (0.0020)
Regional macro controls (3)	No	Yes	Yes
Bank fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Number of obs.	4,940	4,940	4,940
Adjusted R-squared	0.1753	0.1751	0.1724

H2, H3, & H4: A reduction in the tax rate leads to a reduction in deposit and non-deposit ratio of a bank. But non-deposits decline by much more than deposits.

Table 5: Effects on bank deposits and debt

Variables	I: Baseline	II: Including macroeconomic regional controls	III: Including bank risk control	IV: Baseline	V: Including macroeconomic regional controls	VI: Including bank risk control
	Dep. variable: $\Delta(\text{Bonds/Total assets})$ (I)	Dep. variable: $\Delta(\text{Bonds/Total assets})$ (II)	Dep. variable: $\Delta(\text{Bonds/Total assets})$	Dep. variable: $\Delta(\text{Deposits/Total assets})$	Dep. variable: $\Delta(\text{Deposits/Total assets})$	Dep. variable: $\Delta(\text{Deposits/Total assets})$
$\Delta(\text{IRAP rate})_{t-1}$	0.3897** (0.1767)	0.3718** (0.1729)	0.3906** (0.1835)	0.1779 (0.1453)	0.1095 (0.1580)	0.0878 (0.0561)
$\Delta(\text{Bank total assets' growth})_{t-1}$	-0.0097** (0.0040)	-0.0098** (0.0040)	-0.0092** (0.0040)	-0.0108** (0.0054)	-0.0107** (0.0054)	-0.0113** (0.0054)
$\Delta(\text{ROE})_{t-1}$	-0.0086 (0.0101)	-0.0083 (0.0102)	-0.0086 (0.0102)	-0.0149 (0.0118)	-0.0149 (0.0118)	-0.0146 (0.0119)
$\Delta(\text{Comm&Fees/Tot ass})_{t-1}$ (1)	20.621*** (7.9484)	20.552** (8.1497)	20.598** (8.1391)	63.8637 (64.0008)	60.1089 (64.0298)	57.8681 (63.8887)
$\Delta(\text{RWA/Total assets})_{t-1}$ (2)			-0.0138 (0.0179)			-0.0653*** (0.0108)
Regional macro controls (3)	No	Yes	Yes	No	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of obs.	4,940	4,940	4,940	4,940	4,940	4,940
Adjusted R-squared	0.1494	0.1500	0.1505	0.1660	0.1674	0.1677

H5: A reduction in the tax rate leads to a narrowing of the cost of non-equity funding of a bank.

Table 6: Effects on the cost of non-equity funding

Variables	I: Baseline	II: Including macroeconomic regional controls	III: Including bank risk control
	Dep. variable: $\Delta(\text{Cost of non-equity}$ $\text{funding})$	Dep. variable: $\Delta(\text{Cost of non-equity}$ $\text{funding})$	Dep. variable: $\Delta(\text{Cost of non-equity}$ $\text{funding})$
$\Delta(\text{IRAP rate})_{t-1}$	0.1185*** (0.0173)	0.1295*** (0.0185)	0.1247*** (0.0180)
$\Delta(\text{Bank total assets' growth})_{t-1}$	0.0009** (0.0004)	0.0009** (0.0004)	0.0011*** (0.0004)
$\Delta(\text{ROE})_{t-1}$	0.0070*** (0.0014)	0.0072*** (0.0014)	0.0071*** (0.0014)
$\Delta(\text{Comm\&Fees/Tot ass})_{t-1}$ (1)	1.6622* (0.9264)	1.6368* (0.9273)	1.2213* (0.6452)
$\Delta(\text{RWA/Total assets})_{t-1}$ (2)			0.0053*** (0.0013)
Regional macro controls (3)	No	Yes	Yes
Bank fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Number of obs.	4,940	4,940	4,940
Adjusted R-squared	0.7914	0.7916	0.7938

H6: A reduction in tax rates lead to an increase in the total credit portfolio in the assets of the banks.

Table 7: Effects on total bank credit portfolio

Variables	I: Baseline	II: Including macroeconomic regional controls	III: Including bank risk control
	Dep. variable: $\Delta(\text{Credit}/\text{Total assets})$	Dep. variable: $\Delta(\text{Credit}/\text{Total assets})$	Dep. variable: $\Delta(\text{Credit}/\text{Total assets})$
$\Delta(\text{IRAP rate})_{t-1}$	-0.8320*** (0.2115)	-0.5128** (0.2173)	-0.5461** (0.2174)
$\Delta(\text{Bank total assets' growth})_{t-1}$	0.0193*** (0.0058)	0.0177*** (0.0054)	0.0138*** (0.0052)
$\Delta(\text{ROE})_{t-1}$	0.0164 (0.0181)	0.0325* (0.0178)	0.0355** (0.0173)
$\Delta(\text{Comm\&Fees/Tot ass})_{t-1}$ (1)	-87.6229 (87.6150)	-78.3497 (60.1971)	-66.3094 (52.0036)
$\Delta(\text{RWA/Total assets})_{t-1}$ (2)			-0.0980*** (0.0124)
Regional macro controls (3)	No	Yes	Yes
Bank fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Number of obs.	4,940	4,940	4,940
Adjusted R-squared	0.0691	0.0698	0.081

Table 8: Effects on banks' securities holding, performance, and bad loans

Variables	I: Impact on bank securities holding	II: Impact on performing loans	III: Impact on bad loans
	Dep. variable: $\Delta(\text{Securities/Total assets})$	Dep. variable: $\Delta(\text{Performing loans/Total assets})$	Dep. variable: $\Delta(\text{Bad loans/Total assets})$
$\Delta(\text{IRAP rate})_{t-1}$	-0.4525** (0.2150)	-0.4024** (0.1981)	0.1174** (0.0546)
$\Delta(\text{Bank total assets' growth})_{t-1}$	0.0037 (0.0061)	0.0106** (0.0054)	-0.0048*** (0.0017)
$\Delta(\text{ROE})_{t-1}$	0.0277* (0.0144)	0.0836*** (0.0154)	-0.0176*** (0.0042)
$\Delta(\text{Comm\&Fees/Tot ass})_{t-1}$ (1)	-18.3029 (36.7975)	-75.2146 (51.0826)	6.9933* (4.2157)
$\Delta(\text{RWA/Total assets})_{t-1}$ (2)	-0.0560*** (0.0119)	-0.0609*** (0.0102)	0.0047 (0.0029)
Regional macro controls (3)	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Number of obs.	4,940	4,940	4,940
Adjusted R-squared	0.0550	0.1875	0.1422

Table 9: Effects on banks' liability: different impact for low-capitalized banks

Variables	I: Impact on leverage	II: Impact on subordinated debt	III: Impact on insured forms of funds	IV: Impact on non-equity funding costs
	Dep. variable: $\Delta(\text{Equity}/\text{Total assets})$	Dep. variable: $\Delta(\text{Bonds}/\text{Total assets})$	Dep. variable: $\Delta(\text{Deposits}/\text{Total assets})$	Dep. variable: $\Delta(\text{Cost of non-equity funding})$
$\Delta(\text{IRAP rate})_{t-1}$	-0.1213** (0.0594)	0.3737** (0.1895)	0.0971 (0.2617)	0.1064*** (0.0220)
$\Delta(\text{IRAP rate})_{t-1} * \text{Low Capitalization dummy}$	-0.1870** (0.0832)	0.1515 (0.3867)	0.0915 (0.5472)	0.0587* (0.0328)
<i>Low Capitalization dummy</i>	-0.5999*** (0.0699)	-0.0090 (0.2644)	-0.3789 (0.3028)	-0.0192 (0.0192)
$\Delta(\text{Bank total assets' growth})_{t-1}$	0.0002 (0.0013)	-0.0029 (0.0046)	-0.0095* (0.0054)	0.0011*** (0.0004)
$\Delta(\text{ROE})_{t-1}$	0.0086* (0.0050)	-0.0086 (0.0111)	-0.0173 (0.0127)	0.0071*** (0.0015)
$\Delta(\text{Comm&Fees}/\text{Tot ass})_{t-1} (1)$	-2.4960 (2.3940)	80.4919 (58.9283)	36.5891*** (13.7592)	1.2041* (0.6353)
$\Delta(\text{RWA}/\text{Total assets})_{t-1} (2)$	-0.0028 (0.0019)	-0.0149** (0.0066)	-0.0586*** (0.0107)	0.0051*** (0.0013)
Regional macro controls (3)	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Number of obs.	4,940	4,940	4,940	4,940
Adjusted R-squared	0.2211	0.1663	0.1725	0.7940

Table 10: Effects on banks' assets: different impact for low-capitalized banks

Variables	V: Impact on banks' total credit portfolio	VI: Impact on bank securities holding	VII: Impact on performing loans	VIII: Impact on bad loans
	Dep. variable: $\Delta(\text{Credit}/\text{Total assets})$	Dep. variable: $\Delta(\text{Securities}/\text{Total assets})$	Dep. variable: $\Delta(\text{Performing loans}/\text{Total assets})$	Dep. variable: $\Delta(\text{Bad loans}/\text{Total assets})$
$\Delta(\text{IRAP rate})_{t-1}$	-0.7776*** (0.2302)	-0.5269** (0.2311)	-0.6285*** (0.2000)	0.0207 (0.0573)
$\Delta(\text{IRAP rate})_{t-1} * \text{Low Capitalization dummy}$	0.9644 (0.7105)	-0.3160 (0.6561)	1.8203*** (0.6815)	0.2160* (0.1277)
<i>Low Capitalization dummy</i>	-1.3097*** (0.4142)	0.1071 (0.3200)	-1.4549*** (0.3100)	0.0952 (0.1060)
$\Delta(\text{Bank total assets' growth})_{t-1}$	0.0143*** (0.0052)	0.0074 (0.0057)	0.0104* (0.0053)	-0.0047*** (0.0015)
$\Delta(\text{ROE})_{t-1}$	0.0319* (0.0173)	0.0311** (0.0146)	0.0790*** (0.0150)	-0.0299*** (0.0049)
$\Delta(\text{Comm&Fees}/\text{Tot ass})_{t-1} (1)$	-62.0859 (50.0256)	-14.5888 (31.0006)	-75.2314* (39.7992)	7.4076** (3.7617)
$\Delta(\text{RWA}/\text{Total assets})_{t-1} (2)$	-0.0932*** (0.0124)	-0.0517*** (0.0121)	-0.0628*** (0.0105)	0.0041 (0.0028)
Regional macro controls (3)	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Number of obs.	4,940	4,940	4,940	4,940
Adjusted R-squared	0.081	0.0550	0.1875	0.1422

Table A1: Dynamic model and GMM estimator

Variables	I: Impact on leverage	II: Impact on subordinated debt	III: Impact on insured forms of funds	IV: Impact on non-equity funding costs	V: Impact on banks' total credit portfolio
	Dep. variable: $\Delta(\text{Equity}/\text{Total assets})$	Dep. variable: $\Delta(\text{Bonds}/\text{Total assets})$	Dep. variable: $\Delta(\text{Deposits}/\text{Total assets})$	Dep. variable: $\Delta(\text{Cost of non-equity funding})$	Dep. variable: $\Delta(\text{Credit}/\text{Total assets})$
$\Delta(\text{IRAP rate})_{t-1}$	-0.1328*** (0.0495)	0.3327* (0.1891)	0.2126 (0.3248)	0.1698*** (0.0233)	-1.045** (0.444)
$\Delta(\text{Bank total assets' growth})_{t-1}$	0.0009 (0.0017)	-0.0008 (0.0058)	0.0043 (0.0067)	0.0023** (0.0010)	0.0022 (0.0076)
$\Delta(\text{ROE})_{t-1}$	0.0024 (0.0049)	0.0139 (0.0261)	0.0431 (0.0301)	0.0062* (0.0032)	-0.7925** (0.3623)
$\Delta(\text{Comm\&Fees}/\text{Tot ass})_{t-1}$ (1)	-29.8251* (16.9556)	2.3529 (7.5322)	7.3152 (8.8645)	2.2816 (1.4465)	-0.6470 (21.6479)
$\Delta(\text{RWA}/\text{Total assets})_{t-1}$ (2)	0.0014 (0.0054)	-0.0028 (0.0353)	-0.0924*** (0.0305)	0.0053* (0.0028)	-0.0372 (0.0300)
Lagged endogenous variable	Yes	Yes	Yes	Yes	Yes
Regional macro controls (3)	Yes	Yes	Yes	Yes	Yes
Bank fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Observations	4,940	4,940	4,940	4,940	4,940
Serial correlation test (4)	0.267	0.623	0.513	0.171	0.094
Hansen Test (5)	0.189	0.205	0.622	0.156	0.109

Conclusions

- Banks respond to exogenous tax changes by altering their leverage, liability structure and asset composition. In particular, we shed evidence that:
 - Banks reduce their leverage in response to tax reductions.
 - They reduce their non-deposit debt much more than deposits in response to tax cuts.
 - Their non-equity costs of funding goes down when the tax rates go down.
 - Financially stronger banks increase their loan portfolio and securities holdings.
 - Financially weaker banks tend to clean up their assets in response to a tax cut.
 - The effects are (economically) significant.