

Total Tax Contribution of Real Estate Investment Trusts in Europe

November 2020



A study carried out for





About EPRA

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 270 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over €600 billion of real estate assets* and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index.

EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, promotion of best practices and the cohesion and strengthening of the industry. Find out more about our activities on www.epra.com.

*European companies only

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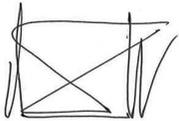
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Foreword

Real Estate Investment Trust (REIT) are the guardians of our cities' high quality assets, covering all types of real estate assets, from offices to retail, and increasingly healthcare and retirement facilities. They are also great contributors to GDP and to society as they represent hundreds of thousands of jobs in our continent. In Europe, no less than fourteen EU member states have introduced REIT legislation with an effective tax pass-through to incentivise real estate investment. With withholding taxes deducted from dividends, but also on employment and on property ownership, there is limited visibility over the tax contribution paid by REITs. But then, how and how much do REITs contribute in taxes to the public finance in Europe?

In partnership with PwC, EPRA conducted the first Total Tax Contribution (TTC) study amongst its membership. The study revealed that the TTC and other payments to government in Europe is estimated to be €4.1 billion, comprising €1.7 billion in taxes borne, which are a cost to the REITs, €2.3 billion in taxes collected on behalf of tax authorities and €100 million in other payment to governments. As a whole, the study has gathered evidence-based data that for every €100 of turnover, an amount equivalent to €32.8 is contributed in taxes.

Amid the COVID-19 crisis and at a time when corporate taxation is under increasing scrutiny, real estate can be viewed as an easy target for tax intensification given the long-term nature of real estate investment. To this end, we hope that the TTC study will provide a useful and objective source of evidence to improve awareness of REIT regimes and their tiered contribution for a constructive and active participation in the debate.



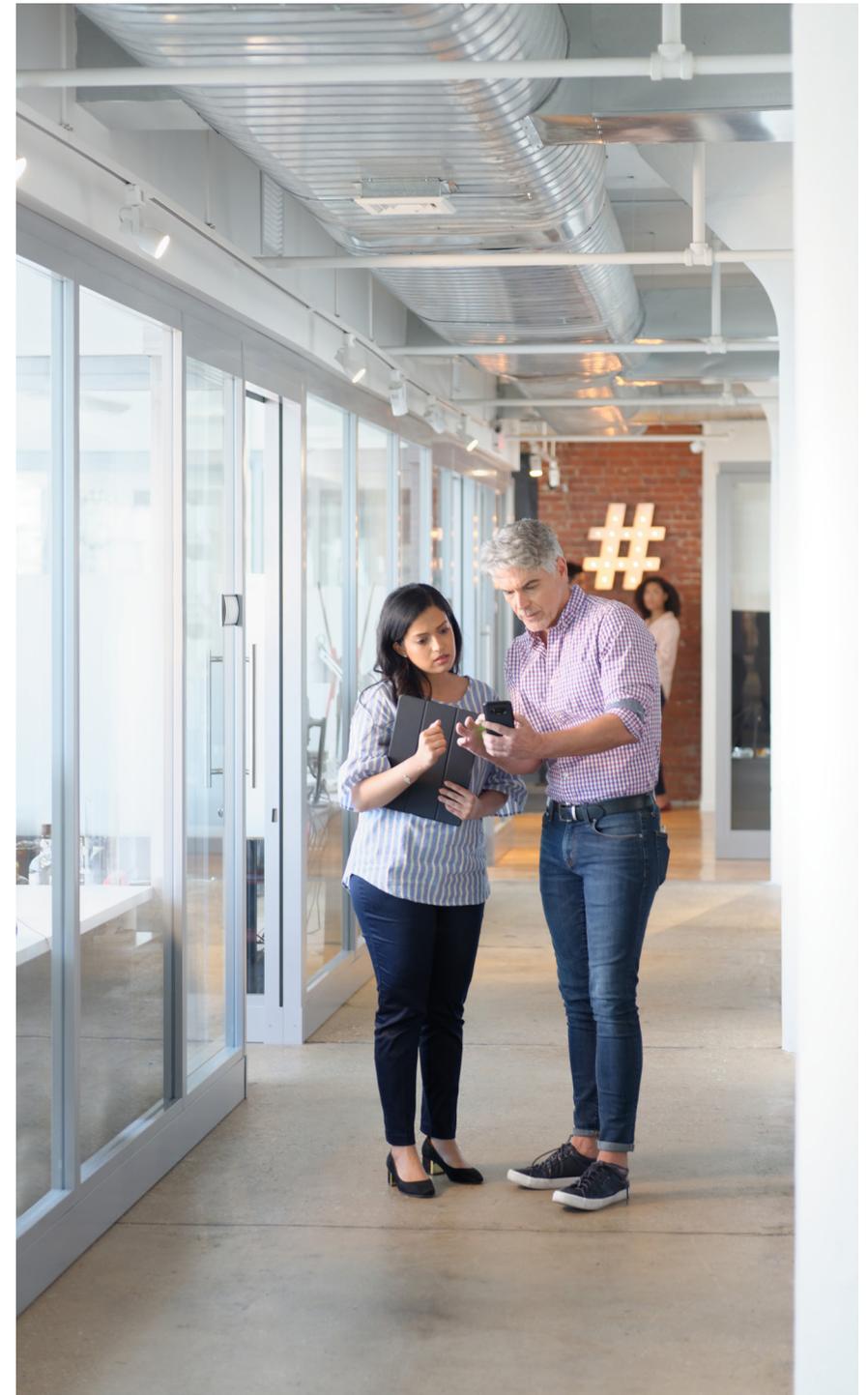
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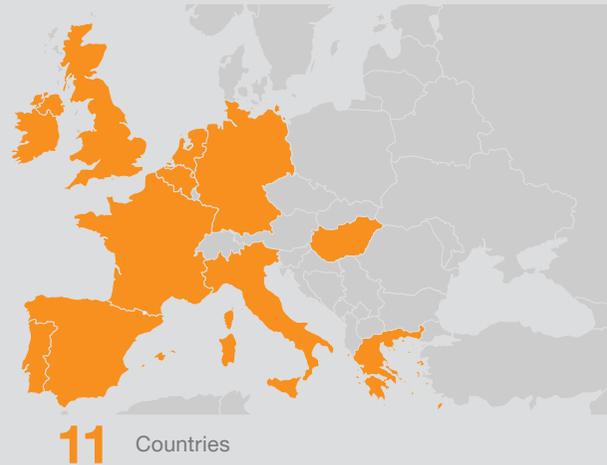
Executive summary

This is the first TTC study of listed Real Estate Investment Trusts (REITs) in Europe. Listed REITs are publicly listed property investment companies that own, operate, develop and manage real estate assets to obtain returns from rental income and capital appreciation.

The tax profile of REITs can be misunderstood as the profit generated is not taxed in the hands of the REIT, but at the shareholder level, when the profit is paid out as a dividend. Legally, a REIT is obliged to distribute on average 90% of its taxable income as dividends.

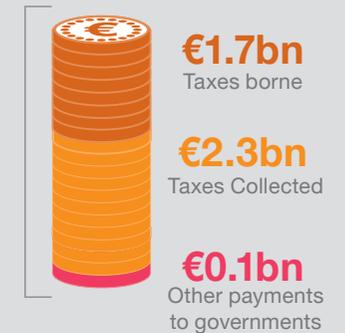
There was strong participation in the first TTC survey with 48 REITs providing data from 11 countries.

48 REITs participated in the survey

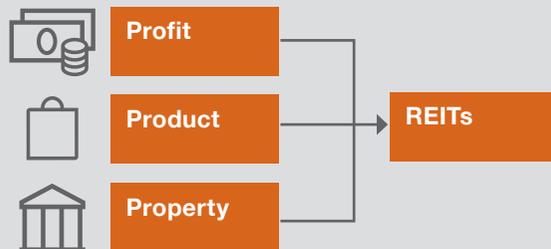


We estimate the TTC and other payments to governments of the EPRA REIT membership in Europe to be **€4.1bn**. This comprises **€1.7bn in taxes borne**, a cost to the REIT, **€2.3bn in taxes collected** on behalf of tax authorities and **€0.1bn in other payments** to governments.

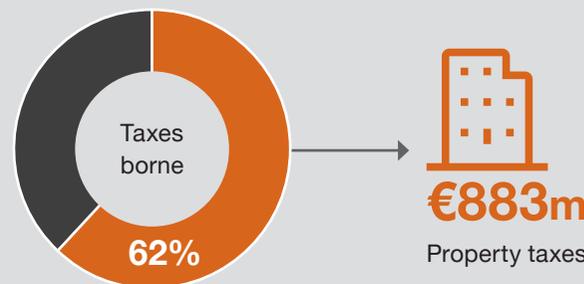
€4.1bn
EPRA membership
in Europe



Given the long-term nature of **real estate investment**, this contribution tends to be a steady tax revenue for governments over a period of time. Different tax bases (profit, product, property) are all significant for REITs.



Over half of taxes borne was property taxes (**€883m or 62%**) paid on ownership and transfer of property

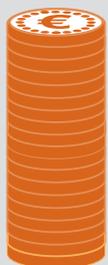


REITs collect taxes from **shareholders** (withholding tax, **€683m**), customers and tenants (**product taxes €802m**, e.g. net VAT) and **employees** (people taxes **€270m**).



For every **€100** of turnover, REITs contribute **€32.8** in taxes.

€100



For every
€100 of
turnover

€32.8 in taxes



The total tax rate, a measure of taxes borne in relation to profits before taxes borne, is **19.4%**.



Total Tax Rate

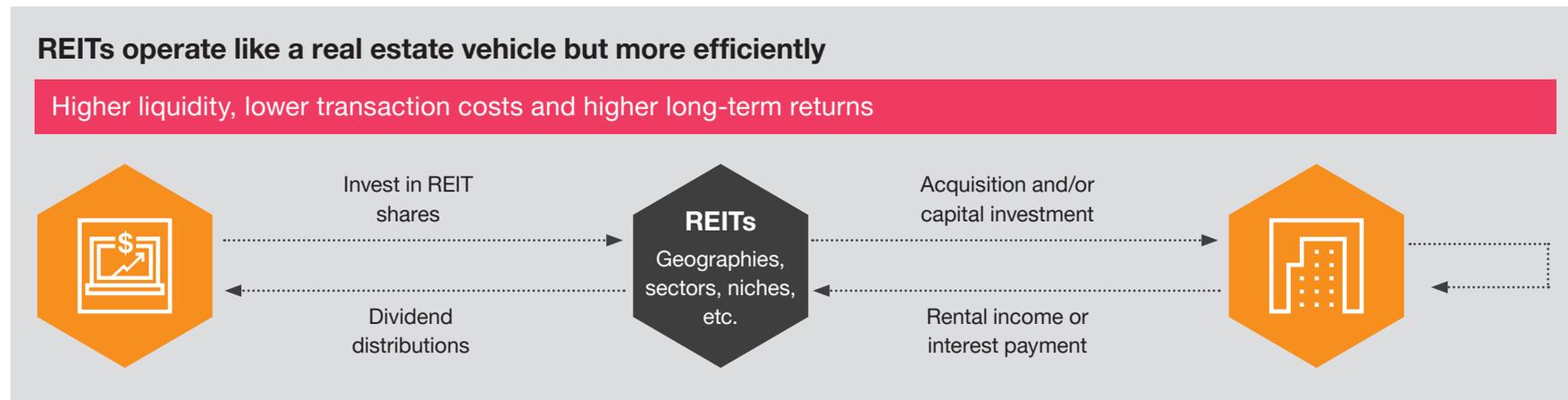
19.4%



1. Purpose and outline of the survey

Background and purpose

Real estate plays a critical role in all aspects of our everyday lives. Property companies serve businesses and the society by actively developing, managing, maintaining and improving the built environment; where we all live, work, shop and relax. They also play a crucial part in providing retirement security to millions of people, by offering pension funds and insurance companies stable and highly competitive assets to invest in.



Real Estate Investment Trusts (REITs)¹ are real estate companies quoted on an official national stock exchange that derive income from the ownership, trading, and development of income producing real estate assets. They allow anyone, from retail investors to large institutional investors, to invest in the real estate held by publicly quoted companies, the same way as investing in other industries through purchasing shares. Instead of investing in individual properties, investors in a REIT are able to earn part of the income produced by the underlying bricks and mortar.

Recognising that the purpose of a REIT is to allow collective investment in real estate, the profit generated is not taxed in the hands of the REIT, but at the shareholder level, when the profit is paid out as a dividend. Legally, a REIT is obliged to distribute on average 90% of its taxable income as dividends.

For this reason, the tax profile of REITs can be misunderstood. The tax on rental income and on gains realised on disposal is passed to shareholders to ensure that the tax liability is paid once (at the shareholder level) rather than twice (first by the REIT and then by the shareholder). This incentivises real estate investment through accessible, transparent and liquid REITs.

The purpose of this Total Tax Contribution (TTC) study of REITs in Europe is to provide robust data to raise awareness and aid understanding of the taxation of REITs by looking at all business taxes that REITs pay in addition to corporate income tax. The study provides an objective source of evidence and enables EPRA members to highlight their contribution to the public finances from all taxes.

¹ REITs can be both listed and non-listed, however, the purpose of this study is to focus exclusively on the listed REITs whose voice is being represented by EPRA.

Outline of the study

This is the first TTC study that EPRA has carried out of its membership. The study relies on support from EPRA members to provide data on the taxes and levies they pay to all levels of government including employment taxes, property taxes and product taxes. It uses a robust and well understood methodology, the Total Tax Contribution framework², which is non-technical and easy for non-tax experts to understand. The TTC study sets out the amounts of tax paid by the participants on a cash basis including all the taxes and levies paid to any level of government, split into taxes borne and taxes collected on behalf of government.

Taxes borne are all the taxes levied on a REIT, which are its cost and will affect its results when paid. They include profit taxes (e.g. corporate income tax), people taxes (e.g. employers' social security), and property taxes (on ownership and transfer of property). Taxes borne are a REIT's direct contribution to tax revenues.

Taxes collected include profit taxes (withholding taxes on dividends), people taxes (e.g. employee income tax and social security administered through the payroll), and product taxes collected from customers on sale. These are the taxes of employees and customers respectively but are collected from them by the REIT and paid over to the government. Taxes collected are generated by the REIT's business activity and are part of its indirect contribution to tax revenues.

The TTC framework identifies five tax bases, following the OECD classification, in order to consolidate taxes that have different names around Europe.

- Profit taxes include taxes on income, profits and capital gains.
- Product taxes include taxes and duties levied on the production, sale or use of goods and services, including taxes and duties levied on international trade and transactions.
- Property taxes include taxes levied on the acquisition, disposal, ownership or use of tangible and intangible property.
- People taxes include all taxes and social contributions in relation to the employment of staff. They cover both employment taxes and contributions which are borne by the company and those which are the cost of the employee and administered by the employer by deduction through the payroll.
- Planet taxes include taxes and duties levied on the supply, use or consumption of goods or services which are potentially harmful to the environment.
- The framework also identifies other payments to governments where there is a direct return of value to the REIT for the payment. The Total Tax Contribution framework incorporates these other payments but differentiates between these and taxes.

Data were collected for accounting periods ending in the year to 31 March 2020; for 66% of participants, this was the year ended 31 December 2019. The study has been carried out using data provided by REITs on their tax payments in Europe. The majority of REITs provided data for one country. The results are a measure of their cash taxes paid, covering both taxes borne and taxes collected and provide information which would not otherwise be in the public domain, since this is not information the companies are required to disclose in their financial reports. PwC has anonymised and aggregated the data provided by the REITs to produce the study results. The results are a valuable source of independent data to inform debate and explain the tax contribution of REITs.

PwC has carried out a sense check to raise queries and understand outliers but has not verified, validated, or audited the data and cannot therefore give any undertaking as to the accuracy of the study results.

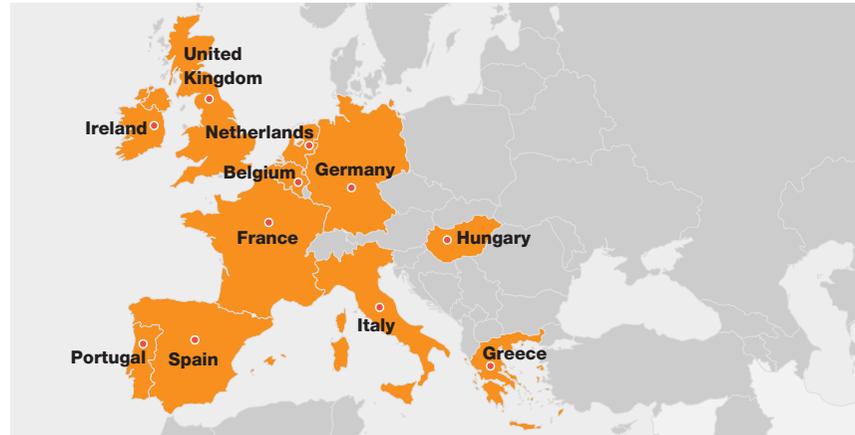
² <https://www.pwc.com/gx/en/services/tax/publications/total-tax-contribution-framework.html>

Participation

Forty-eight EPRA members participated in the study, providing data on taxes borne and collected for their accounting period ending in the year to 31 March 2020. The forty-eight participants were spread across eleven countries in Europe² (Figure 1). Participants provided, on average, 9 taxes borne and 4 taxes collected, indicating the comprehensive and detailed data collection undertaken by members (Figure 2). The majority of REITs (41) provided data for one country only, while seven other REITs provided data for more than one country.

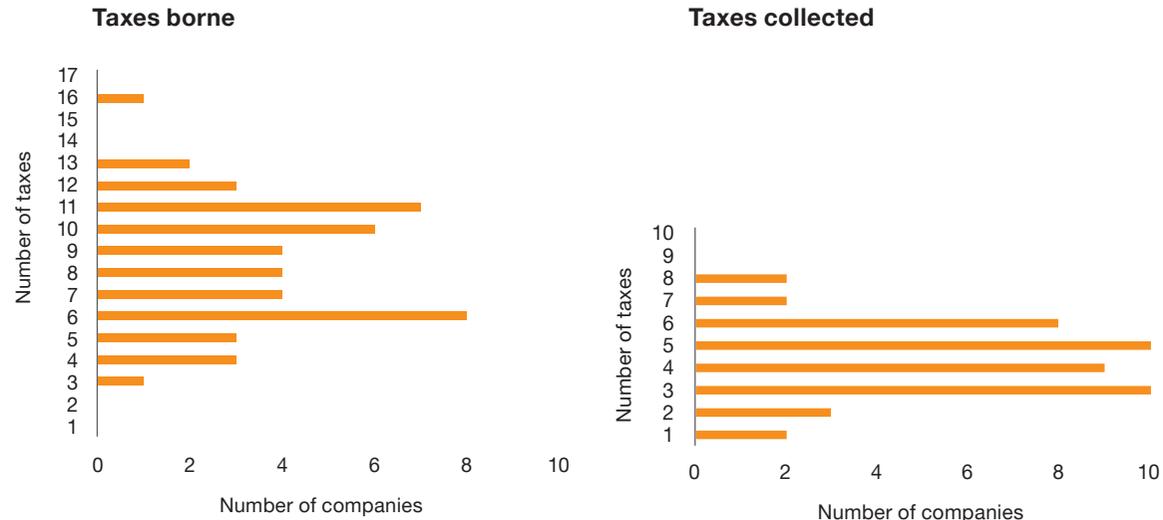
Data were received from the largest REITs in the EPRA membership. The top 20 largest REITs in the EPRA membership by portfolio value provided data for the survey. We estimate that participants represent 82% of the portfolio value of the EPRA membership³.

Figure 1. Participants' geographic coverage



Source: Participant data, PwC Analysis

Figure 2. Range of data provided by participants



Source: Participant data, PwC Analysis

² Belgium, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Portugal, Spain, UK.

³ Source: EPRA data.

2. Estimated tax contribution of the EPRA membership in Europe

Total Tax Contribution and other payments to government

We estimate that the EPRA membership made a contribution of around €4.1bn to the public finance in Europe in the year to 31 March 2020. The estimation is based on details of the tax payments provided by the companies participating in the study.

The 48 companies taking part in the study reported⁴ total taxes borne of €1.4bn and total taxes collected of €1.8bn. In addition, other payments to governments amounted to €0.1bn. Extrapolating⁵ from these figures, we have estimated total taxes borne for the EPRA membership as a whole of €1.7bn, taxes collected of €2.3bn and other payments to government of €0.1bn. Adding taxes borne and taxes collected, together with other payments to government, gives an estimated total tax contribution for the EPRA membership of €4.1bn as shown in figure 3. Extrapolation is carried out at the level of taxes borne and taxes collected.

Figure 3. Estimated tax contribution and other payments to government of the EPRA membership in Europe

	Participants in the study	Extrapolated to the EPRA membership
€millions		
Taxes borne		
Profit taxes	190	
Property taxes	883	
People taxes	243	
Product and planet taxes	99	
Total	1,415	1,733
Taxes collected		
Profit taxes	697	
People taxes	270	
Product taxes	802	
Property and planet taxes	4	
Total	1,773	2,293
Total Tax Contribution	3,188	4,026
Other payments to governments	73	73
TTC and other payments	3,261	4,099

⁴ The total is equivalent to a mean average contribution per participating REIT of €68m; the median average is €35m.

⁵ Extrapolation was based on data from study participants and ratios of taxes borne and taxes collected to portfolio value and turnover for REITs in the membership. The extrapolation has been carried out at the level of taxes borne and taxes collected.



3. Profile of taxes paid by survey participants

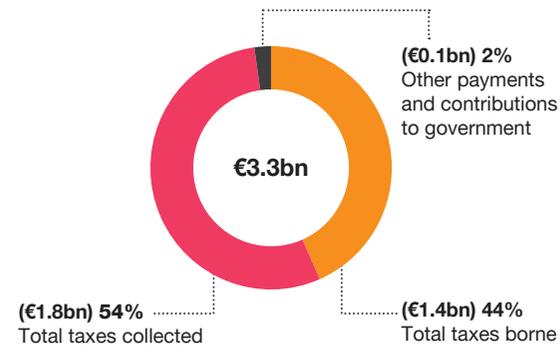
As well as looking at the amounts of each tax borne or collected by the study participants, we have also considered the relative proportions of the different taxes.

Profile of Total Tax Contribution and other payments to governments

Figure 4 shows the total tax contribution and other payments to government of the 48 REITs that participated in the survey. Taxes borne account for 44% of the total, other payments account for 2% of the total, while taxes collected account for 54% of the total.

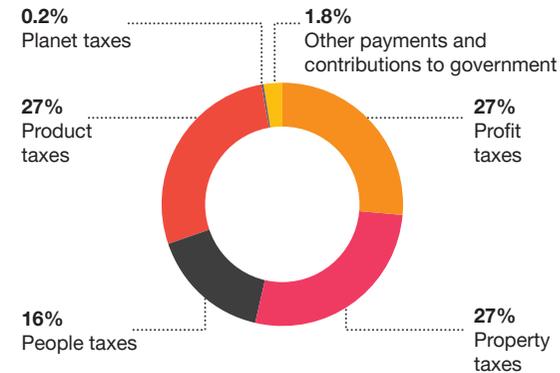
Figure 5 shows that total split into the 5 tax bases. Product taxes (e.g. net VAT), profit taxes and property taxes are the most significant and have an equal split.

Figure 4. Total Tax Contribution and other payments of participating REITs

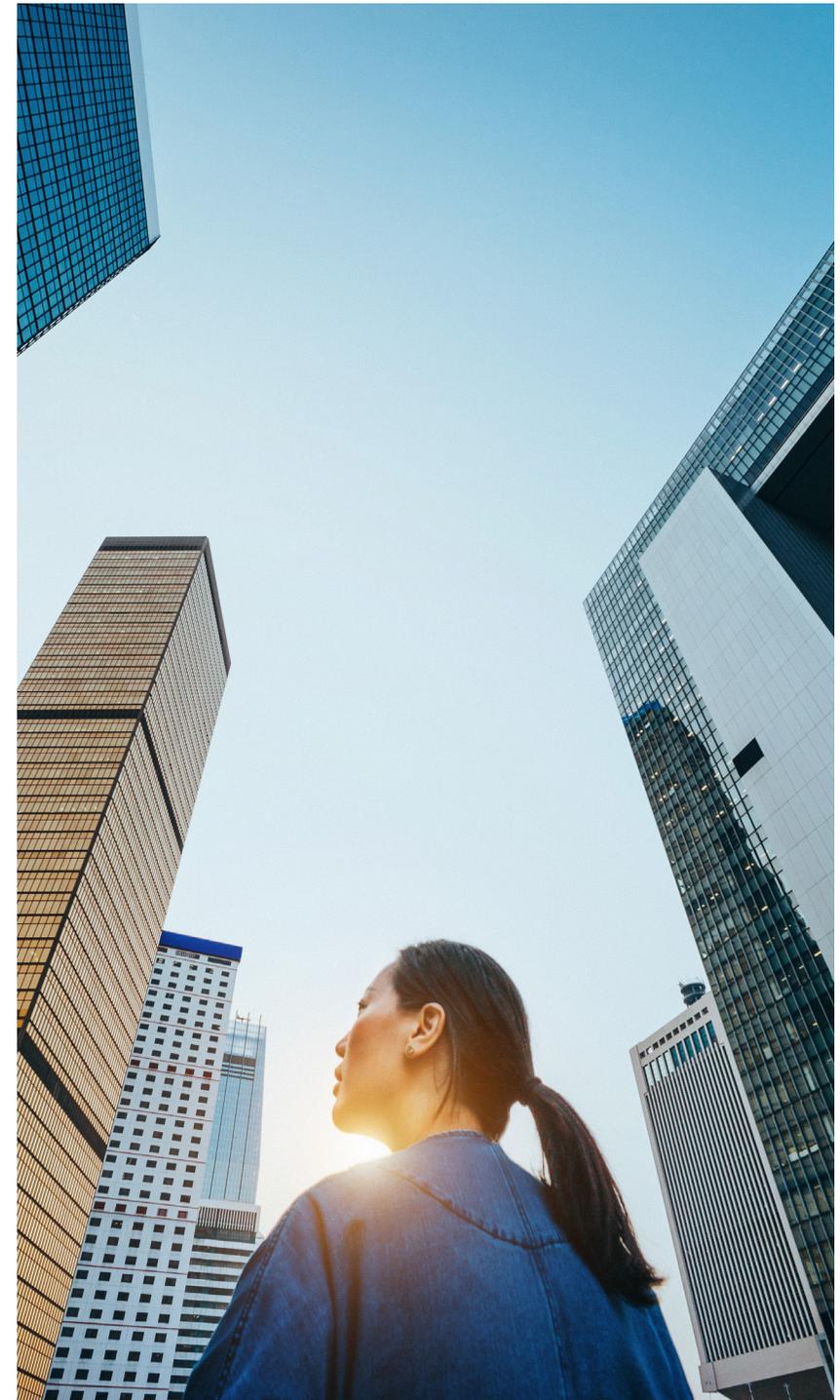


Source: Participant data, PwC Analysis

Figure 5. Total Tax Contribution and other payments of participating REITs by five tax bases



Source: Participant data, PwC Analysis



Profile of taxes borne

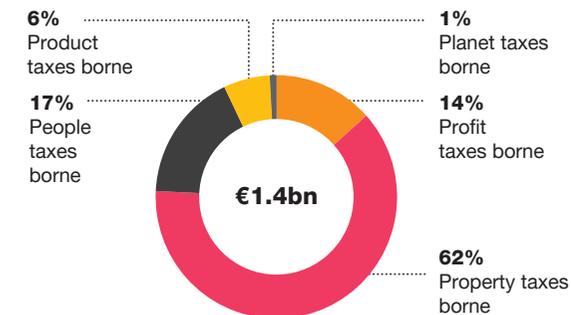
Figure 6 shows the profile of taxes borne for REITs that provided data for the study. All of these taxes are a direct cost to these companies and have an impact on their financial results. Many are 'above the line' taxes that are deductible in calculating profit before tax and will not be separately disclosed in financial statements. Total taxes borne are the direct tax contributions of REITs to the public finances.

Figure 6 shows that the largest taxes borne by REITs are property taxes which are over half (62%) of the total (see section 6 for further detail). The second largest taxes borne are people taxes which are 17% of the total (see section 4 for further detail). Perhaps surprisingly, since profit taxes are taxed at the level of the shareholder rather than the REIT, profit taxes make up 14% of the total. As well as

generating income from rental property, REITs can offer services, providing that the average value of those services is less than 25% of total income. Profit from the provision of services is subject to corporate income tax which is a tax borne for the REIT. Product taxes borne comprise 6% of the total and arise when VAT is irrecoverable and a cost to the business. Planet taxes form a small part of the total (1%). With the transition to a low-carbon and resource-efficient European economy in coming years, we may see the planet tax base increase.

Other payments and contributions to governments are not taxes since there is a direct return of value to the REIT for the payments. Examples include payments for planning permission, payment for rental of land, regulatory payments to governments.

Figure 6. Taxes borne by REITs participating in the survey



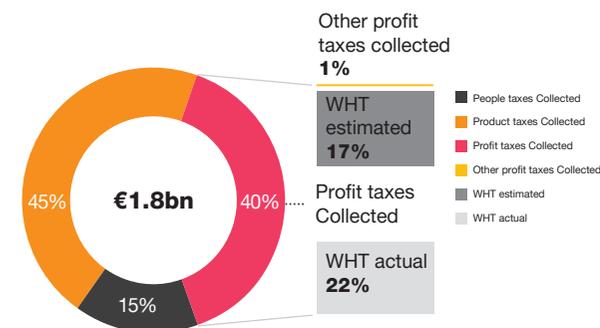
Source: Participant data, PwC analysis.

Profile of taxes collected

Figure 7 shows the profile of the taxes collected by the REITs in the study. These are the taxes collected from employees, customers and shareholders which are not a direct cost to the REITs themselves, other than the cost of administration. The companies are responsible for administering these taxes and paying the amounts collected over to governments, and we are therefore able to measure the cash contribution to the public finances. Taxes collected are part of the indirect contribution REITs make to tax revenues.

The largest element of taxes collected is product taxes, such as net VAT, charged to customers. The next largest is profit taxes. The size of profit taxes collected is unique to REITs and arises from the withholding tax deducted from dividends paid to shareholders. In some countries, the withholding tax is deducted by the REIT and in others, by an agent of the REIT. In the latter case, where it was relevant for participants, the withholding tax amount has been estimated and this is shown separately on the chart. For further details, see section 5. People taxes collected are also significant for REITs, at 15% of the total. For further details, see section 4.

Figure 7. Taxes collected by REITs participating in the survey



Source: Participant data, PwC analysis.

4. People taxes

Employment is an important way in which REITs contribute to economies around Europe.

Total employment taxes for REITs taking part in the survey amounted to €513m. This includes employer social security totalling €243m and employee social security and income tax totalling €270m.

Employment taxes for each employee are €41,266 on average⁶, taking amounts borne and collected together. These are an indicator of the direct benefit to the public finances for each job created or maintained in the sector. This compares to the GNI per capita in Europe of €37,458 which emphasises the contribution made by the sector through employment.



⁶ The average employment taxes per employee was calculated by taking the total employment taxes for the survey population and dividing it by the total number of employees in the population. The median average per company is €52,874 and the mean average per company is €52,286.

5. Withholding tax collected by REITs on dividends

Background

A feature of the REIT regime is that tax on profits made by the REITs is due from shareholders rather than from the REIT itself.

Legally, a REIT is obliged to distribute on average 90% in dividends to shareholders. The amount of tax due from shareholders depends on both the makeup of the profit distributed and the composition of the shareholder base. The profit made by the REIT will be from a range of sources and categories, e.g. tax-exempt profit from property rental business and taxed profit from other activities carried out by the REIT. These must be separated to determine the tax due from the shareholder.

The shareholder base may comprise individuals, institutional investors, other investors and may be domestic or based overseas. The tax due will depend on the shareholder base. Certain classes of shareholder are eligible to receive gross dividends, without deduction of tax, for example in the UK, this includes charities, local authorities, UK pension schemes and managers of certain savings schemes.

Approach adopted in the survey

Gathering information on tax paid at the shareholder level was outside the scope of this study. Instead, the study collected data on the withholding tax due on the dividend paid by the REIT. Withholding tax is a deduction from dividends collected by the REIT or their agent. It is required by tax authorities and passes the administrative burden for the payment onto the REIT or agent who must withhold the appropriate amount of income tax from the payment, submit returns to the tax authority and issue statements to the recipients who may be able to claim a tax credit for the tax deducted.

The survey asked participants for amounts of withholding tax deducted from dividend payments made in the year. For most participants, the data were readily available. In some countries, withholding is deducted by agents acting for the REITs, rather than the REIT itself, and in these cases, the actual payment was not available, and the amount has been estimated. The estimation is based on the individual REIT's shareholder base, amounts distributed and withholding tax rate, as shown in the example.

Withholding tax data received

Figure 8. Withholding tax data received⁷

Withholding tax collected from dividends by REITs	€392m
Estimated withholding tax collected by agents of REITs	€291m
Total withholding tax	€683m

Example withholding tax estimation where the dividend is paid gross with withholding tax deducted by an agent or intermediary.

The total dividend paid in 2019	€1,000,000
Percentage of shareholder base located overseas	75%
Rate of withholding tax applied to the overseas dividend – the most appropriate rate for the location of the overseas shareholder base and the type of overseas investor.	17%
Estimated withholding tax [1,000,000 x 75% x 17%]	€127,500

⁷ Withholding tax collected data were reported by 33 REITs and estimated by 13 REITs.

6. Property taxes

Background

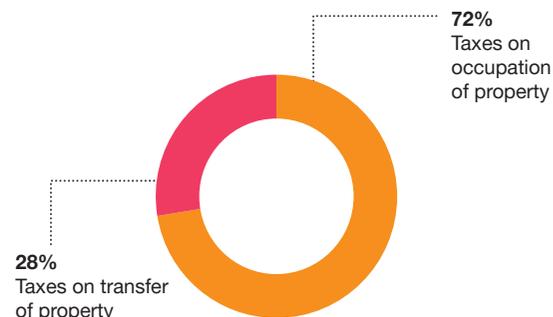
Property taxes form an important part of the tax base in Europe. In 2018, total receipts from property taxes in the EU-28 amounted to €400bn⁶ which is equivalent to 2.5% of GDP and 6.4% of total tax receipts in the EU.

Land and property have identifiable and unchangeable geographic locations which makes the tax base easier to identify than some other taxes. In addition, the ownership of land is also generally visible and easily established, which means it is relatively straightforward to identify who should be paying the tax⁷.

As owners of property, REITs make a significant contribution through property taxes. The survey data shows that participants from 11 countries in Europe contributed property taxes of €883m, 62% of taxes borne.

Property taxes arise on both transfer (purchase/sale) and occupation of property. REITs are not speculative traders, instead investing in property for the long term, generating stable returns. Figure 9 shows that the majority of property taxes arise on occupation of property.

Figure 9. Property taxes



Source: Participant data, PwC analysis.

Transfer of property

Within the survey data, €243m related to property transactions on the sale or purchase of property. The real estate industry has a unique business model in that it buys assets, usually with a relatively low yield, and holds those assets over a period of time. While the main element of the tax contribution from the property tax base is from ownership of assets, the TTC study shows that there is a contribution in taxes on transfer of assets, an area that is often overlooked.

Occupation of property

Within the survey data, €639m related to occupation of property. These taxes have been included in the survey as a tax borne where the REIT is liable to pay the property tax to the tax authority. In most EU countries, the liability for property taxes on occupation lies with the owner (e.g. the REIT) and the tax authority will seek payment from the owner. Property taxes are a cost for the REIT and under the TTC framework are borne by the REIT. The cost is part of the commercial activity of the REIT, along with other costs, and will be a factor in the rent calculation.

The treatment of property taxes on occupation under the TTC framework differs in some countries, e.g. the UK. Here the liability for property taxes on occupation lies with the tenant and the tax authority will seek payment from the tenant. In this case, the property tax is a tax borne by the tenant rather than the REIT and is not included in the survey.

At certain times, properties may be empty. The REIT will bear property taxes in these void periods.

⁶ https://ec.europa.eu/taxation_customs/business/economic-analysis-taxation/data-taxation_en

⁷ <https://www.ifs.org.uk/uploads/mirrleesreview/design/ch16.pdf>

7. Putting Total Tax Contribution data into an economic context

It is possible to put the TTC data into the context of other economic measures, such as turnover and profit. The following calculations were generated using the study data:

- Total Tax Rate (TTR) which is total taxes borne as a percentage of profit before all business taxes
- Taxes borne and collected as a percentage of turnover⁸

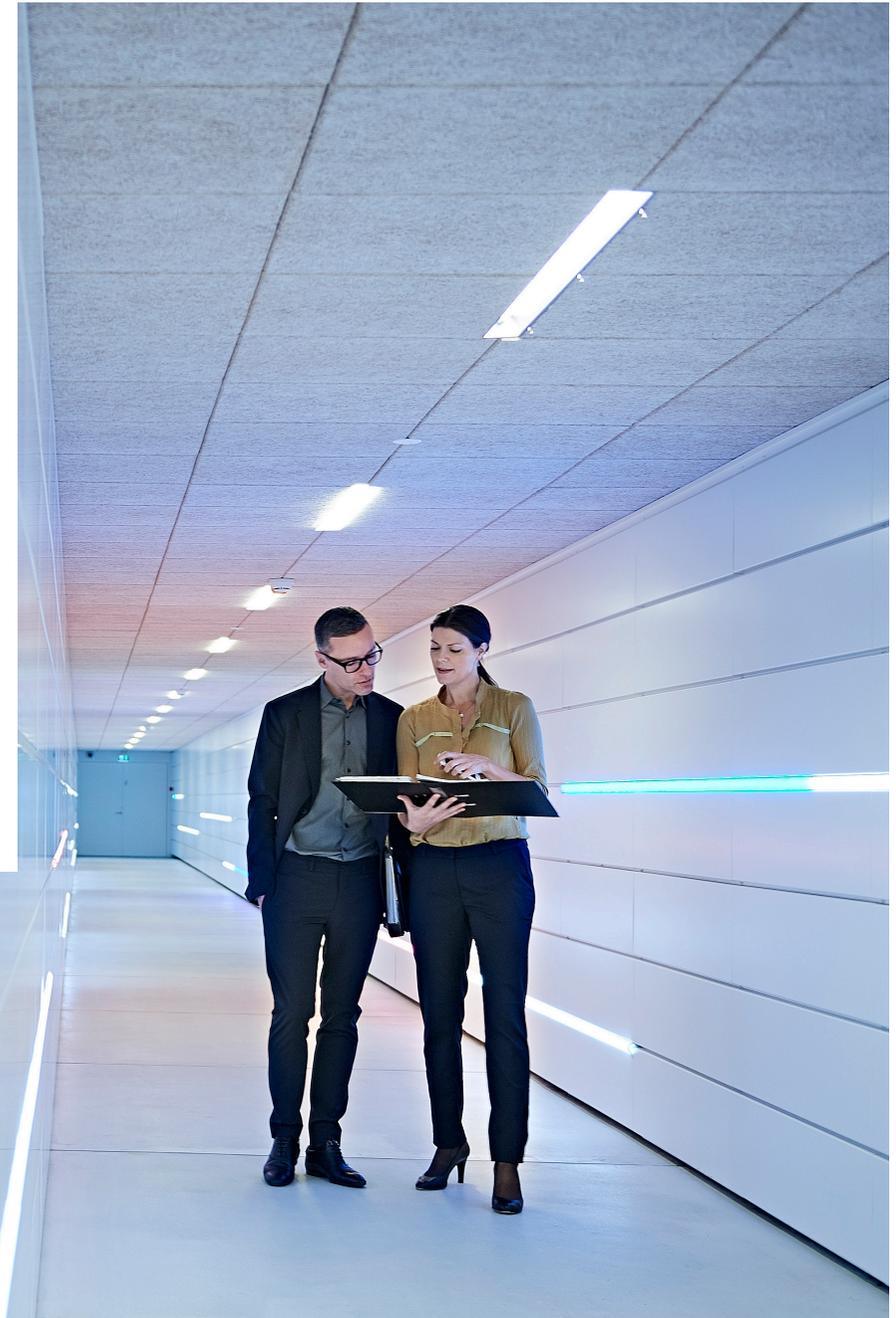
These calculations were carried out for each individual participant giving mean average calculations. For example, the TTC/turnover ratio was calculated for each participant separately and then a mean average was calculated. The mean average gives equal weight to all companies in the study and more accurately reflects the burden faced by individual companies.

Total Tax Rate

The Total Tax Rate is a measure of the cost of taxes in relation to profitability and calculates the total taxes borne as a percentage of profits before all those taxes borne. Only taxes borne are included in the Total Tax Rate calculation; taxes collected excluded. The average Total Tax Rate for REITs in the survey is 19.4%⁹. For an explanation of the Total Tax Rate calculation, see appendix.

TTC as a percentage of turnover

TTC as a percentage of turnover for study participants was on average 32.8%¹⁰, consisting of 14.9% taxes borne and 17.9% taxes collected. For every €100 of turnover, an amount equivalent to €32.8 is paid in taxes borne and collected.



⁸ Turnover, that is the revenue or income reported by the REITs

⁹ The average Total Tax Rate was 19.4%, the overall 18.7% and the median average 12.9%. The range was 2.2% to 69.4%. This excludes 3 REITs with rates exceeding 100%.

¹⁰ The average TTC to turnover is 32.8%, the overall 26.7% and the median average is 29.6%, and the range 9.3% to 93.2%.

8. Results for different parts of the sector

The EPRA membership comprises REITs from different subsectors. The survey asked REITs to identify which subsector they operate in and the table below shows the number of REITs in each subsector participating in the survey.

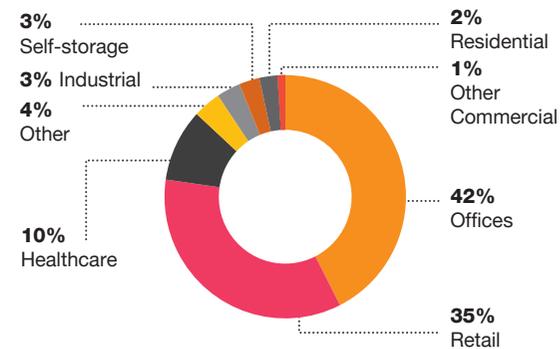
Figure 10. Survey participants by subsector

Offices	14
Retail	13
Other	6
Residential	5
Healthcare	4
Industrial	2
Self-storage	2
Other commercial	2
Total	48

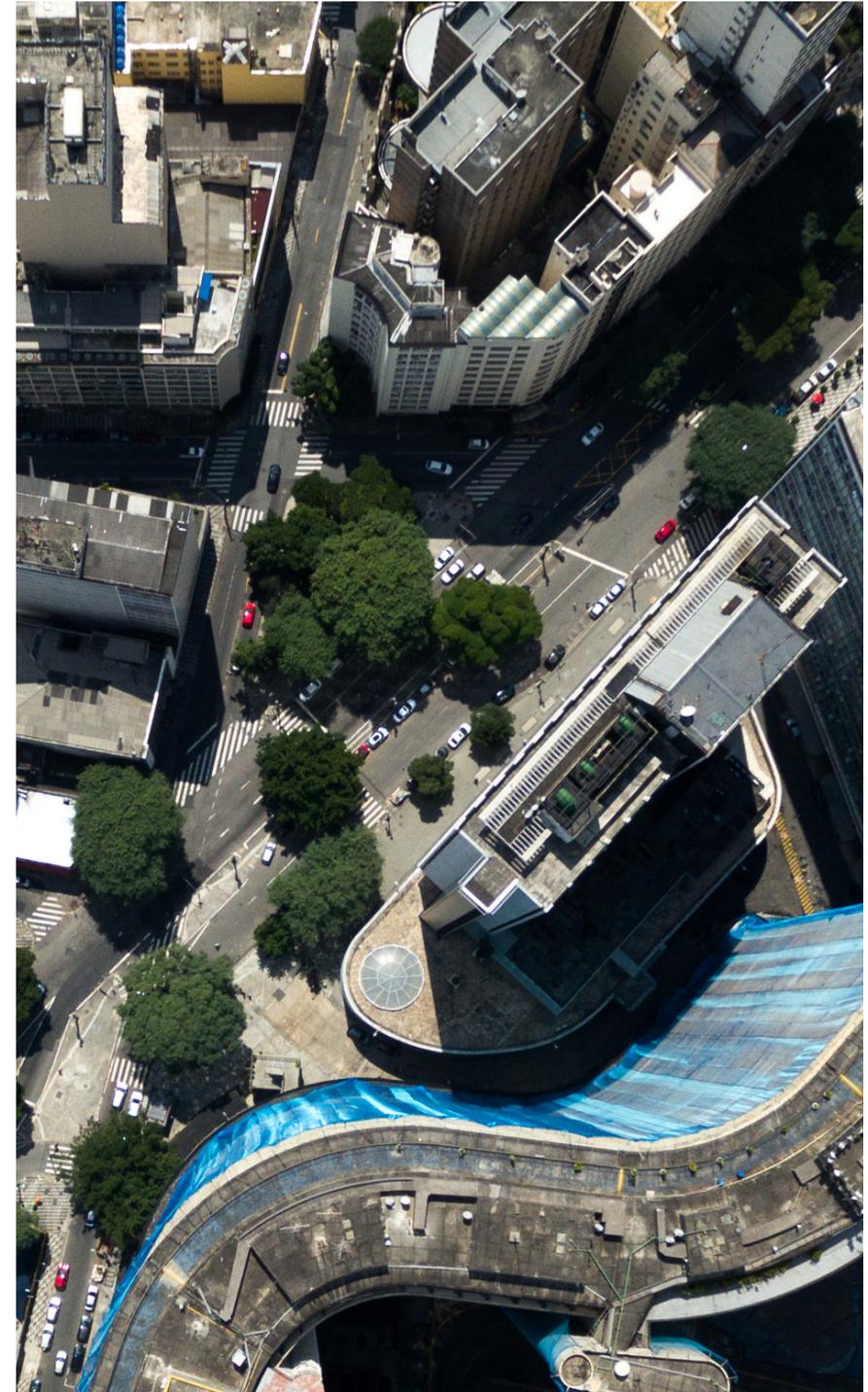
Source: Participant data, PwC Analysis

Figure 11 shows the TTC by subsector. The office and retail REITs made up the largest part of the TTC with 42% and 35% of the total respectively. COVID-19 will affect some REIT sectors more than others, and the office and retail sectors are likely to be heavily affected with implications for the tax contribution from these sectors in the future.

Figure 11. Total Tax Contribution by sector



Source: Participant data, PwC Analysis



Appendices



Appendices

Total Tax Rate calculation

An example of the Total Tax Rate calculation is as follows:

Assumptions:

1. Profit before total taxes borne €40
2. Book-to-tax adjustments (€10)
3. Statutory corporate income tax rate 25%
4. For every €1 of corporate income tax paid, there is another €1 of other business taxes paid.

Items	€	Reference
Profit before total taxes borne	40	(A)
Other business taxes borne	6	(B)
Profit before income tax	34	(C) = (A)-(B)
Book-to-tax adjustments	(10)	(D)
Taxable profit	24	(E) = (C)+(D)
Statutory corporate income tax rate	25%	(F)
Corporate income tax	6	(G) = (E)*(F)
Total taxes borne	12	(H) = (B)+(G)
Total Tax Rate	30%	(I) = (H)/(A)

