Members’ Briefing Call:
Commission Consultation on Taxation of the Financial Sector

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Agenda

• Background
  o Policy objectives
  o Financial Transactions Tax (FTT)
  o Financial Activities Tax (FAT)
  o Commission’s views (October 2010)

• Current state of play (June 2011)

• The developing context (June 2011 onwards)
Various institutions have been considering new taxes on the financial sector

- IMF (report for the G-20)
- European Council (conclusions)
- European Parliament (resolutions)
- Council of the European Union (working party)
- European Commission (communications and consultation)
- National governments (already introducing new taxes)

In this presentation, we will focus on the work being undertaken by the European Commission
Policy objectives

- Our understanding is that the policy objectives of any additional taxes on the financial sector would be as follows:
  - to raise revenues
  - to change behaviours so as to increase the stability of the financial system
- The Commission has stated that “it is important to first determine whether... a new financial sector tax should be introduced, which potential impacts it [would have]... Any debate on the use of the revenue would be held at a later stage.”
- AFME response to the Commission consultation
  - A study should first be undertaken to establish the current total tax contribution of the financial sector in EU
  - in terms of increasing the stability of the financial system, the optimal way forward is to develop regulatory reforms that reduce systemic risk and reduce the need for government interventions when failures do occur
The FTT is a tax on the value of individual transactions

Various proposals
- Product scope
- Geographic coverage

Factors to consider
- Liquidity
- Economic growth
- Incidence

AFME response to Commission on spreads in the FX market
- Based on publicly available data
- Examples showing effect on costs to end users
Commission’s assessment (October 2010)

- “Globally, an FTT could be an appropriate option as a revenue raiser, in particular to provide financing for global policy goals.”
- “A financial transaction tax could be considered at the EU level only. However, it must be borne in mind that the financial industry is a global and interconnected one. Financial activities are concentrated in a small number of financial centres both inside and outside the EU which compete on the world stage.”
• As envisaged by the Commission, the FAT is a tax on profits

• Various proposals
  - Tax on the “total value added”
  - Tax on profits above a defined level
  - Geographic coverage

• Factors to consider
  - Alignment with VAT
  - Industry scope
Commission’s assessment (October 2010)

• “The addition-method FAT can be interpreted as a tax on a proxy for total value added by a financial sector company. However, if designed as a complement to the current VAT, a number of technical issues must be resolved in order to align both taxes.”

• “The Commission believes that the FAT option is worth exploring in the EU context. This should include an assessment of its possible competitive implications...”
Commission’s view (October 2010)

- Commission will take into account the need to:
  - “create the conditions for a more level playing field for the financial sector in the internal market...”
  - contribute to minimise current distortions due to the VAT exemption of financial services...
  - reduce possible cross-border double taxation.”

- “The challenge is to design a global financial transaction tax that would generate sufficient revenue while minimising its adverse economic effects.”

- “In the light of analysis undertaken to date, FTT appears less suitable for unilateral introduction at EU-level since the risks of relocation are high...”

- “At this stage the Commission considers that there is greater potential for a Financial Activities Tax at EU-level.”

- “The Commission will... launch a comprehensive impact assessment...in order to be in a position to make appropriate proposals on policy actions by summer 2011.”
Current state of play (June 2011)

• The Commission has written the impact assessment, which is being reviewed by its Impact Assessment Board.

• Separately, the Commission has issued communications setting out a proposal for a Council decision and a Council regulation on the system of “own resources” of the European Union.

• “FTT could constitute a new revenue stream, which could reduce the existing Member State contributions... The Commission will therefore present a proposal for an EU financial transaction tax in the autumn of 2011.”

• “The development of a new VAT resource would bring a new impetus to the development of the internal market... The new VAT resource would be one facet of a markedly revised VAT system in the EU, in the wake of the Green Paper on the future of VAT.”
The developing context (June 2011 onwards)

- Commission impact study nearing completion.
- Commission believes there is a strong case for FTT.
- Commission legislative proposal in the autumn.
- Commission Staff Working Paper on EU Budget proposes a new phase in financing the EU including financial sector taxation.
- G20 expected to return to topic at meetings in October and November
Commission position:

• Given the Commission’s global commitment, and despite some positive aspects of FAT, it is appropriate as a first step to focus on FTT.

• FTT could raise more than €30bn per year for the EU-27 by 2020 (and up to €50bn, should currency transactions be included).

• An EU initiative could be a pragmatic first step towards a global level FTT.

• Tax base and tax rate should be defined carefully so as to avoid relocation of the industry.

• Careful calibration to avoid macroeconomic negatives.
Commission position:

- The debate following the VAT green paper will be most appropriate opportunity to discuss FAT as a compensation scheme for VAT exemption on financial services.

- Addition-method FAT applied at the source is the most convincing form of FAT. However, the integration with the current VAT system would be difficult and the FAT could not solve the problem of irrecoverable VAT without such integration.

- Existing corporate income tax systems could be used as a starting point for implementation according to the Commission.

- In order to avoid certain institutions, such as the shadow banking sector, falling outside the scope of the FAT the Commission suggests a very wide definition of financial services.
Commission position:

• The Multiannual Financial Framework (MFF) requires unanimity in Council.

• The regulation on the multi-annual financial framework, which sets the spending limits for the EU in the period concerned (art 312 TFEU), will require the **unanimity** of the Member States and the consent, i.e. **absolute majority** of the European Parliament, in order to be adopted.

• The decision on “own resources” will be taken through Member States **unanimity**, with the Parliament only being consulted (art 311 TFEU). This establishes the main elements of the funding system. This includes the categories of own resources (including an FTT), maximum rates of the taxes constituting the own resources, etc.

• The implementation of this decision is by Qualified Majority Voting in Council and absolute majority in the European Parliament. The implementing regulation lays down more technical and practical arrangements requiring greater flexibility. This would include aspects such as the concrete tax rates applicable to each category of own resources; etc.