
Press Release

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Proposed Financial Transaction Tax is inefficient and European Commission is seriously under-estimating the economic impact, says new report

The proposed Financial Transaction Tax (FTT) would not only reduce economic activity but would also be a highly inefficient way to raise public funds, even on the European Commission's own assumptions about revenues likely to be raised and potential costs incurred, according to a new report from the independent economic consultants Oxera.

The Commission's assumptions concerning the proposed FTT show that the ratio of GDP lost to tax revenue gained as a result of the tax could range between 2:1 and 4:1, says Oxera. But even this is likely to be a serious under-estimate, as reduced economic activity resulting from the tax would be expected to reduce other sources of tax revenue.

Because of these effects, Oxera estimates that the real ratio of GDP loss to overall tax revenue gained could be as high as 10:1, and it restates its comment in a previous report on the FTT published in December 2011 that there is a risk that imposition of the tax could actually reduce overall tax revenues from the economy rather than raising additional revenue.

The latest Oxera report was commissioned by the Association for Financial Markets in Europe and other associations¹ after the European Commission published a further analysis of the macroeconomic impact of the FTT using a new economic model. It comes amid renewed discussion of the tax by European Union finance ministers in the context of the eurozone sovereign debt and banking crisis.

The Commission's latest analysis, published in the form of seven explanatory notes on May 4, contains different estimates for the economic impact of the tax from those contained in the economic impact assessment included with the original FTT proposal last year.

The explanatory notes state that the FTT is expected to reduce annual real gross domestic product by 0.28 per cent in the long term. However, Oxera argues these new estimates significantly under-estimate the negative GDP impact as the Commission is ignoring a whole range of effects of the tax, for example on investment financing.

Simon Lewis, Chief Executive of AFME, commented:

"We have always said that the FTT is a flawed idea, which is likely to have serious negative repercussions for the European economy. We are also concerned that the political discussions on the subject are taking place without sufficiently rigorous economic analysis. This report confirms that much more debate is needed about the meagre gains expected from this tax and the significant damage it would cause to savers, investors and companies."

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¹ The associations sponsoring the report are AFME, ASSOSIM (Italian Association of Financial Intermediaries) and Nordic Securities Association (NSA)

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Notes:

1. The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets, which support economic growth and benefit society.
2. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu
3. The European Commission explanatory notes, published in May 2012 can be found at http://ec.europa.eu/taxation_customs/taxation/other_taxes/financial_sector/index_en.htm
4. The new Oxera review of the European Commission's latest commentary on the financial transaction tax can be found [here](#). The previous Oxera study, published on 22 December 2011 can be found [here](#).
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