

Bank Taxes in Europe

*Examining the effects of
banking taxes on banks,
the macroeconomy and
competitiveness*

February 2026

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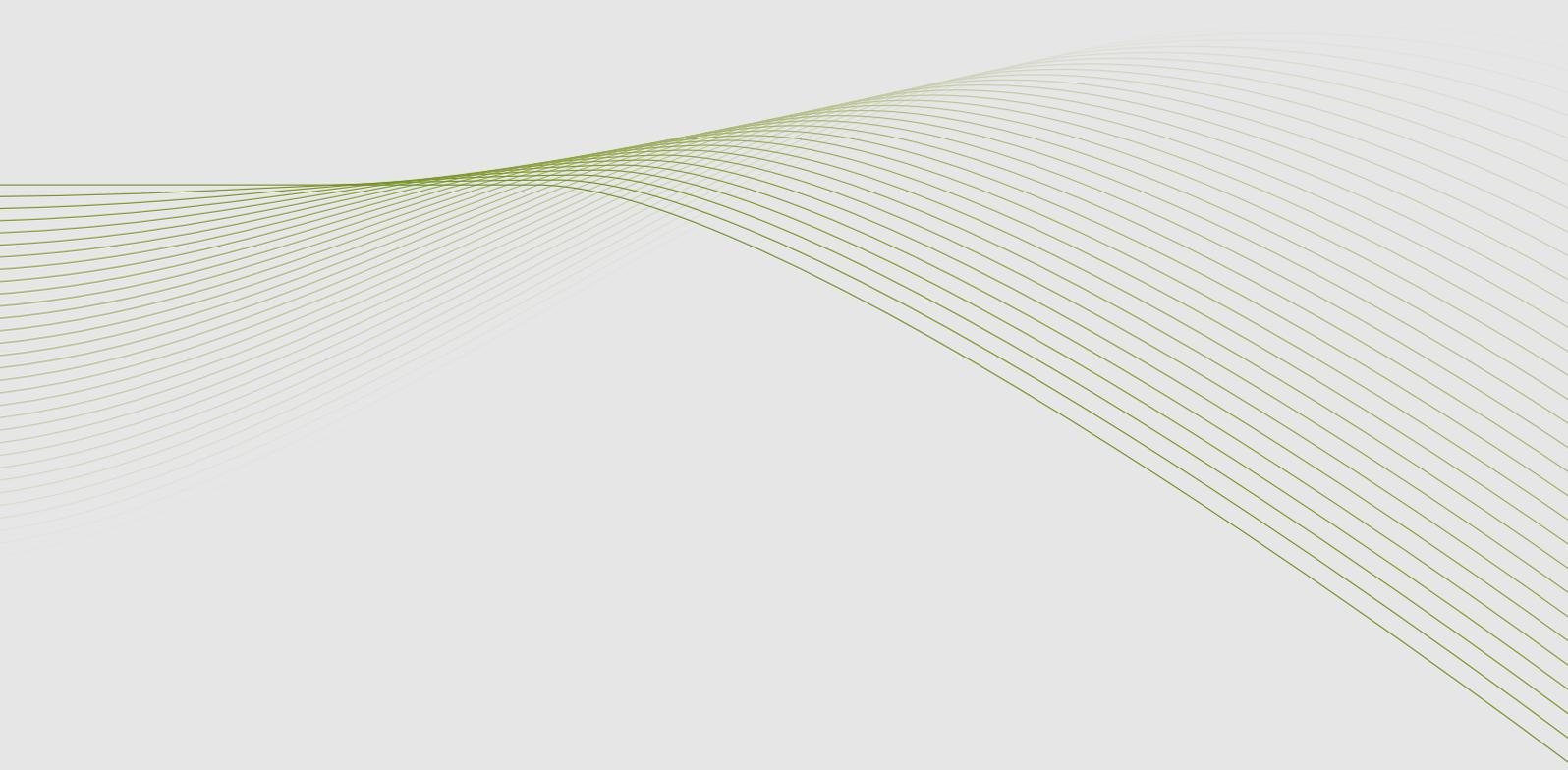
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Introduction by AFME



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A strong, integrated European capital market is an essential element of the EU's economic position on the global stage. Tax frameworks can act as enablers of deeper integration and, by facilitating cross-border activity and supporting digitalisation and innovation, they can contribute to addressing the EU's investment gap identified by the Draghi and Letta Reports.

Taxation is a prime example of a national competence with EU-wide implications in terms of economic attractiveness. Yet, the current tax landscape facing banks in Europe, examined in this report, reveals a proliferation of fragmented approaches across Member States, creating uncertainty and raising compliance and transaction costs, which can in turn undermine competitiveness and lead to a loss of investment to other financial centres.

In this report, we research the implications of bank-specific taxes, highlighting the potential impacts of these – illustrating the 'pass-through' effect of increased tax burdens on customers – and their inherent complexity and limited efficiency as revenue-raising tools.

While recognising the deep complexities of tax reform across Europe, it is essential to acknowledge that an enabling tax environment is a key component of making the Savings and Investment Union (SIU) a reality – a vision that AFME has strongly supported from its inception. We strongly believe that tax policymaking should not be developed "in silos" but fully integrated into the SIU and the EU's wider competitiveness and simplification goals.

The recommendations that we have published alongside this report seek to provide a blueprint to support tax and VAT reform in a way that is meaningful, proportionate and competitive for both markets and consumers.

“It is essential to acknowledge that an enabling tax environment is a key component of making the Savings and Investment Union (SIU) a reality – a vision that AFME has strongly supported from its inception”

AFME recommendations for policymakers

1. Embed tax policymaking in the Savings and Investment Union (SIU) agenda

- Tax policy must support the EU's objectives of deeper and more liquid capital and banking markets. As acknowledged in the Commission's SIU Strategy, differences in national taxation procedures create administrative burdens and barriers to cross-border investment.
- The application and outcome of current withholding tax relief processes across EU Member States remains fundamentally uncertain, increasing costs for investors and undermining the EU's attractiveness. The FASTER Directive represents a positive step forward in addressing current inefficiencies in withholding tax reclaim processes. However, without additional steps, this initiative risks failure in its objective to unlock cross-border investment, while imposing significant compliance requirements and additional responsibilities on Certified Financial Intermediaries. Our recommendations in this report seek to support the SIU's objectives in a balanced and proportionate way.

Recommendation: A more ambitious and harmonised approach to withholding tax should be pursued at EU level, including a true relief-at-source framework that is consistently applied across Member States. A common definition of beneficial ownership should be established to reduce the administrative burden for investors, issuers, intermediaries and tax authorities.

- The Commission's Recommendation on Savings and Investment Accounts' (SIAs) acknowledges the role of tax incentives and simple tax compliance procedures in promoting the success of SIA frameworks.
- Although we recognise that tax treatment of investment accounts is at Member States' discretion, and that different types of accounts and/or investment horizons may benefit from dissimilar tax incentives, there is no evidence that investment accounts aiming at promoting increased participation of investors without tax benefits have succeeded in any way.

Recommendation: Member States should implement the spirit of the Commission's Recommendation on SIAs and offer retail investors an exemption from tax on investment income (i.e. interest and dividends) and capital gains.

“There is no evidence that investment accounts aiming at promoting increased participation of investors without tax benefits have succeeded in any way”

2. Recalibrate the taxation environment for banks

- Banks are major contributors to tax revenues through corporate and employer taxes. Higher corporate tax rates and bank specific taxes mean that banks operating in Europe have a much higher tax burden compared to banks operating in the US and Asia. For example, a Dutch bank will be subject to a total tax rate of 42.2% and a German bank to a total tax rate of 38.9% compared to a 27.9% rate for a US bank.ⁱⁱ The US and Asia do not impose bank specific taxes, nor do emerging financial services hubs such as Singapore and Dubai.
- Significant research indicates that bank specific taxes result in increased costs for borrowers, either directly via increased fees or indirectly through less favourable lending and deposit termsⁱⁱⁱ.
- Evidence also shows that, although these taxes are imposed on banks, costs are largely transferred to end-users. This pass-through effect affects financial inclusion and market participation, as increased costs may discourage retail investors and small businesses from accessing more sophisticated banking services or capital markets – which is counterintuitive to the EU’s objective to deepen capital markets and encourage investment.
- Recent “windfall taxes” – often of an ad hoc and temporary nature – introduce additional uncertainty into operating environments for banks, with implications for strategic planning and long-term investment decisions. Banking profits are inherently cyclical, and overly burdensome taxation in profitable years may undermine the sector’s ability to withstand future downturns and ability to finance the real economy^{iv}.
- Historical data show that banks’ return on equity is typically lower than in other industries, reflecting their unique risk profile and regulatory capital requirements^v.

Recommendation: Bank taxes should be reassessed in light of the EU’s competitiveness and growth objectives. In order not to add to existing fragmentation and incoherence across EU Member States, unilateral measures introduced on a temporary basis should not be turned into permanent instruments.

- Financial transaction taxes increase transaction costs and reduce asset values, resulting in lower returns for investors. Studies show that most of the tax burden falls on savings and pensions.
- The introduction of financial transaction taxes in France, Italy and Spain resulted in reductions of 20-35% in market activity.^{vi} This resulted in lower tax revenues; in their first year both the French and Italian FTT’s yielded less than half the amounts originally anticipated.

Recommendation: Lessons from the implementation of national FTTs should be duly acknowledged – in particular, their limited revenue-generating capacity, coupled with considerable complexity, substantial compliance burden and distortive market effects. Drawing from these experiences, FTTs should not be considered an effective or suitable instrument if the objective is to foster retail investor and pension fund participation in European equity markets.^{vii}

“Recent ‘windfall taxes’ introduce additional uncertainty into operating environments for banks, with implications for strategic planning and long-term investment decisions”

ii Figure 10

iii Section 1.5 below

iv Section 1.4 below

v Section 1.3 below

vi Section 2.3 below

vii Section 2 below

3. Modernise the VAT regime for financial services

- Under EU law, most aspects of financial services are exempt from VAT, to avoid imposing an additional cost on the users of everyday financial products. However, this exemption does not give the financial sector a tax advantage, as financial services providers cannot recover VAT paid to their suppliers. As a result of the exemption, banks in Europe pay over €45 billion per year in irrecoverable VAT as an additional expense significantly raising their total tax contribution.
- Any removal or narrowing of the exemption is likely to increase the cost of banking and other services to consumers and business users. In an industry where traditional invoice-credit mechanisms cannot be easily applied to margin-based products, any further changes would be technically complex and burdensome for the sector.
- While the rationale for the VAT exemption remains appropriate, other EU VAT legislation is outdated and needs to be updated to reflect the development of new products and technological and business changes. There are important opportunities to improve VAT legislation to increase certainty for businesses and reduce disputes with tax authorities. This would also include working to further harmonise VAT rules across the EU in areas such as the option to tax, VAT grouping, and cost sharing.

Recommendation: The VAT exemption for financial services plays an important role in enabling efficient and well-functioning markets. It should not be abolished or its scope narrowed. The VAT regime for financial services should be modernised and harmonised through incremental changes to the existing framework.^{viii}

4. Harness opportunity to streamline EU tax rules

- Taxation must be recognised as an integral part of the Commission’s regulatory simplification agenda. AFME is encouraged by the European Commission’s 2026 work programme^{ix} including an Omnibus on tax matters planned for adoption in Q2 2026.
- The Commission’s second evaluation of the Directive on Administrative Co-operation^x (DAC), published in November 2025, identifies further work needed to enhance the DAC’s functioning while reducing administrative burden on business.
- Banks play a critical role in enabling tax authorities to exchange information, the scope of which has significantly expanded through successive DAC reviews. While simplification and better targeting of the DAC would be welcome, this should take a holistic approach to ensure that streamlining information exchange for tax authorities does not result in higher compliance costs for banks.

Recommendation: The forthcoming Omnibus on Taxation is an opportunity to deliver meaningful simplification. The DAC should be better targeted to deliver important information to tax authorities without imposing excessive administrative costs on banks.

“Taxation must be recognised as an integral part of the Commission’s regulatory simplification agenda”

viii Section 3 below

ix European Commission: Commission work programme 2026 https://commission.europa.eu/strategy-and-policy/strategy-documents/commission-work-programme/commission-work-programme-2026_en

x European Commission: Report from the Commission to the European Parliament and the Council on the evaluation of Council Directive 2011/16/EU on administrative cooperation in the field of taxation (November 2025) https://taxation-customs.ec.europa.eu/news/enhancing-tax-compliance-european-union-2025-11-19_en

KPMG overview

This report examines the role of bank taxes in Europe, drawing on research related to both existing and emerging tax measures and analysing technical considerations associated with their implementation. The intention is to present factual information and to summarise the status of EU and UK bank taxes, as well as the broader research findings regarding their effects on banks, consumers, and markets.

Banks provide important finance, liquidity, and cross-border services throughout Europe. Banks are subject to the same corporate, indirect and employment taxes as other corporates, but as the research reviewed in this report frequently notes, applying additional bank-specific taxes could yield unintended consequences in the longer term. Studies by the IMF¹ and the European Parliament² have considered whether the benefits of bank-specific taxes outweigh their drawbacks and provided evidence that bank-specific taxes may harm national economies or consumers.

The research reviewed in this report indicates that the outcomes of bank-specific taxes are varied. While these taxes may generate some additional revenue in the short-term, evidence suggests that costs can be transferred to consumers and may influence market activity, stock market values, and the competitiveness of European economies. For a number of the examples examined in this report, these taxes also raised significantly less revenue than originally estimated.

Bank-specific taxes

A bank-specific tax is a tax that targets banks and banking groups or their activities such as a windfall tax, bank levy, corporate tax surcharge or limitations of deductions in tax calculations.

A wide range of bank specific taxes exist across the EU and UK. These taxes can include levies on bank assets and liabilities, contributions to deposit guarantee schemes, and surcharges based on specific financial activities. The structure and rates of these taxes vary significantly between countries, shaped by local policy objectives and economic conditions.

Since 2022, when global interest rates returned to longer term averages, there has been a widespread introduction of windfall taxes on bank profits. Prompted by rising profits during periods of economic volatility, governments have imposed these taxes to capture additional revenue and address perceived imbalances in the distribution of gains.

The implementation of windfall taxes has raised questions about their long-term impact on bank behaviour, investment, and lending. Whilst windfall taxes on banks can generate revenue in the short term, frequent changes to tax policy may affect financial planning and stability.

Financial Transaction Taxes

Financial transaction taxes (FTTs) are applied to specific financial activities, such as share trades, bond transactions, and derivatives. Across the EU and UK, there is a divergence in how these taxes are structured, reflecting differences in national priorities, market structures, and regulatory approaches. Some countries levy taxes specifically on equities and other securities, while others target certain financial instruments like loans or cross-border transactions.

FTTs and their diversity can affect market liquidity, investment patterns, and cross-border competitiveness. For example, higher transaction taxes may discourage trading activity or encourage financial institutions to relocate operations to jurisdictions with lower tax rates. Banks operating in multiple countries also face high administrative costs as they must navigate distinct tax regimes and compliance requirements.

“Whilst windfall taxes on banks can generate revenue in the short term, frequent changes to tax policy may affect financial planning and stability.”

Regulatory approaches to FTTs continue to evolve, with some EU Member States considering new taxes or revising existing ones in response to changing market conditions. The impact of these taxes on markets has been closely monitored since the introduction of 'new model' FTTs in France, Italy and Spain, as policymakers aim to strike a balance between raising revenue and ensuring efficient financial markets.

This report provides detailed research which considers the effects of FTTs and is set out in Section 2.

VAT on financial services

EU banks pay an estimated €45 billion in irrecoverable VAT costs each year.

The financial services VAT exemptions exist for several reasons. Primarily, the exemptions shield consumers from bearing the full cost of VAT for financial products. The exemptions also ease difficulties with defining what the taxable base should be for complex financial service products.

Efforts to reform the VAT exemption system have been ongoing since 2007, including a major public consultation in 2021. As part of this exercise, the European Commission has considered options ranging from abolishing the exemptions entirely, to partial taxation of fee-based services.

There has also been an expectation that outdated exemption legislation would be updated to more closely align to current business models and supply chains in the financial services sector. However, this wider update has been delayed due to concerns about consumer impact during periods of economic uncertainty and the technical challenges of applying VAT to margin-based products.

The two main scenarios on VAT exemptions analysed in Section 3 of this report are:

- a. removing VAT exemptions entirely, and applying VAT in full to all financial services products; and
- b. partially removing/amending the VAT exemptions, to preserve exempt consumer products but applying VAT to business transactions.

Together, these two scenarios highlight that the removal of the financial services exemptions (wholly or in part) creates both practical and political challenges.

There are practical difficulties with determining how VAT should be levied on those transactions. Negative consequences for private consumers are unavoidable, impacting their overall spending power and leading to increased personal compliance requirements.

Businesses will either be in a net neutral position with respect to VAT (if they are fully taxable) or suffer from higher costs to access finance, which disproportionately impacts those acting for the social good, i.e. culture, health and education providers who may be partially exempt.

Our report also notes that since the introduction of the financial services exemptions, technology and business practices have adapted and evolved. With the emergence of other providers of financial services (e.g., FinTech and TechFin), there may also be a discrepancy in the application of VAT to different types of financial services businesses.

Greater harmonisation of the exemptions and updating them to reflect new ways of conducting financial transactions will increase certainty, reduce disputes and/or litigation and ensure better compliance.

Banks in tax administration

The function of banks within the tax system has shifted significantly over the past decade. With the expansion of Exchange of Information regimes and an increased administrative role in withholding taxes, banks increasingly support tax authorities by providing information on customers and transactions annually. As discussed in Section 4 of this report, the introduction of these regimes can unlock significant benefits to tax administration and national economies, whilst the costs are predominantly borne by banks.

1. *Bank Specific Taxes*

Banks in Europe pay the same taxes as other corporates, including corporation tax, social security and employer taxes and property taxes.

In addition to those universal taxes, many jurisdictions have introduced 'bank-specific taxes' which include a range of measures imposed on banks at a national level (bank levies, windfall taxes and financial activities taxes). Many of these are replicated in one form or another across Europe. Together, they place a high tax burden on banks operating across Europe.

Summary

- **Ten EU Member States and the UK impose bank levies or similar liability-based taxes.**
- **Ten EU Member States have introduced new bank taxes since 2022, whilst a further six have increased bank levy contributions. These are largely 'windfall' taxes in response to increasing interest rates.**
- **A June 2025 report to the European Parliament⁵ noted that fragmented banking taxes lead to increased costs for banks.**
- **A report by the IMF queried whether banking profits were at a level that warranted windfall taxes and noted that many taxes have failed to consider that banking profits are cyclical in line with the wider economy.**
- **Studies indicate that the incidence of taxation falls largely on consumers, with more than three-quarters of the cost of banking taxes passed on in the price of banking services and products.**

1.1 Bank Levies and Resolution Funds

The introduction of domestic bank levies began following the global financial crisis, with policymakers aiming to generate targeted government revenues from the banking sector. These levies are typically imposed on certain categories of liabilities or assets and apply to banks of varying sizes and profiles, with exemption thresholds established in some jurisdictions. Legislative changes have continued through the past decade, reflecting fiscal priorities and sector developments at country level. The scope, calculation method, and applicable rates of national bank levies differ significantly across the EU. A summary of these is included in Figure 1.

The Single Resolution Fund (SRF) was agreed in 2014 and came into effect from 1 January 2016. Finland, France, Germany and Slovakia previously had national bank levies which were terminated at the end of 2015 in favour of contributions to the SRF. Between 2016 and 2024, more than €80 billion was contributed to the SRF from approximately 2,900 banks and investment firms across the Banking Union until it reached the stated goal of a value equivalent to 1% of banking deposits. This resulted in the suspension of regular contributions for 2025 unless extraordinary circumstances arise.³

Bank levies have been maintained by numerous EU Member States at the domestic level alongside contributions to the SRF, resulting in a dual system of bank-specific taxation. While the SRF seeks to pool resources to facilitate the orderly resolution of failing institutions within the Banking Union, national bank levies serve distinct fiscal roles and are determined independently by national governments.

Unlike SRF contributions, which are ringfenced exclusively for resolution financing, domestic bank levies generally flow into the general government budget.

Only in a few cases, such as Germany's repealed levy, are levies used to promote sector stability or support resolution funding. In most Member States, they function as revenue-raising measures with no observable value to financial stability mechanisms or crisis management frameworks.

Figure 1: Domestic bank levies across Europe

Country	Tax Rate in %, Day One	Tax Rate in %, 2025	Tax Base	Period of application	Allocation
Austria	0.055 - 0.085	0.033 - 0.0411	Total liabilities net of equity and insured deposits.	2011 to date	Central budget
Belgium	0.035	0.172	Total liabilities net of equity and insured deposits	2012 to date	Central budget
Cyprus	0.09	0.15	Total liabilities net of equity	2011 to date	Financial stabilisation fund
Greece	0.12 - 0.60	0.12 - 0.60	Value of the credit portfolio	1975 to date	Central budget
Hungary	0.15 - 0.53	0.15 - 0.21	Total assets net of interbank loans	2010 to date	Central budget
Netherlands	0.022 - 0.044	0.03 - 0.06	Total liabilities net of equity and insured deposits	2012 to date	Central budget
Poland	0.44	0.44	Total assets	2016 to date	Central budget
Portugal	Bank levy 0.05	Bank levy 0.11 Solidarity surcharge 0.02	Total liabilities net of equity and subordinated debt	Bank levy 2011 to date. Solidarity surcharge 2020 to date	Central budget. Social security financial stabilisation fund
Slovenia	0.10	0.2	Total assets	2011 to 2015 2024 to 2028	Financial stabilisation fund
Sweden	0.036	0.06	Total liabilities net of equity and insured deposits	2009 to 2015 2022 to date	Financial stabilisation fund Central budget
UK	0.025 - 0.05	0.05 - 0.1	Total liabilities and equity net of certain adjustments including insured deposits	2011 to date	Central budget

Source: Extracted from the European Parliament Report - The taxation of the EU's financial sector. (June 2025)

1.2 New banking taxes in Europe

Recent developments show remarkable expansion in EU bank taxation. Since 2022, 10 EU Member States (Czech Republic, Denmark, Estonia, Hungary, Italy, Latvia, Lithuania, Romania, Slovakia and Spain) have introduced ad hoc bank taxes whilst another 6 Member States (Austria, Belgium, Cyprus, the Netherlands, Slovenia, Sweden) have increased or re-introduced pre-existing bank levies temporarily or permanently. These taxes employ diverse approaches including excess profits taxes, asset-based levies, and net revenue taxes with rates varying substantially across jurisdictions. Tax bases range from liabilities and assets to profits, net interest income, and net revenue. Details of these new and increased taxes are shown in Figure 3.

This is part of a global trend, with the Organisation for Economic Co-operation and Development ('OECD') Tax Policy Reforms 2025 Report⁴ noting that 10 of their members introduced or increased taxes targeting banks and other financial institutions in 2024. Reports for 2024⁵ and 2023⁶ both note additional banking taxes for 4-6 jurisdictions per year, although notably not in other banking hubs such as the US, Singapore, UAE or Switzerland.

According to the IMF, most new taxes fall into several categories: liability-based, asset-based, profit-based, net interest income-based, or net revenue-based. The fiscal burden typically ranges from 0.25% to 1% of risk-weighted assets annually, with exceptions for smaller measures in Belgium and the Netherlands. Some of these taxes are permanent, while others are designed as temporary windfall measures to address short-term excess profits.

The IMF also notes that taxes on assets or liabilities provide more stable revenues but can be especially onerous during downturns.

Conversely, taxes on profits or revenue are more sensitive to cyclical shifts but introduce fiscal volatility and avenues for profit-shifting. The paper highlights substantial divergence across countries regarding tax design, scope, and administrative mechanisms.

Country-level data on new bank taxes is provided, detailing expected fiscal yields and their impact on bank capital ratios. These metrics enable cross-country comparisons for evaluating the scale and intended effects of various tax designs.

This has been further illustrated below to provide granularity on national changes.

Some taxes target “windfall” or “excess” profits driven by rising interest rates and delayed deposit rate adjustments, whilst others are designed seemingly to increase tax revenue from the sector, regardless of profitability. The approaches reflect varying political economy pressures and fiscal needs across jurisdictions.⁷

Both the EU Parliament² and the OECD^{4,5,6} reports referenced elsewhere in this report have also noted that many of these taxes are effectively “windfall” taxes which have been introduced in response to higher interest rates.

The IMF report itself notes that:

“... taxes on excess profits have some special features that limit their value in terms of generating stable and meaningful fiscal revenue. First, it may be difficult to define normal and excess profits in the banking context, because profits are highly cyclical and because the banking sector is undergoing secular changes that affect its structural profitability.”

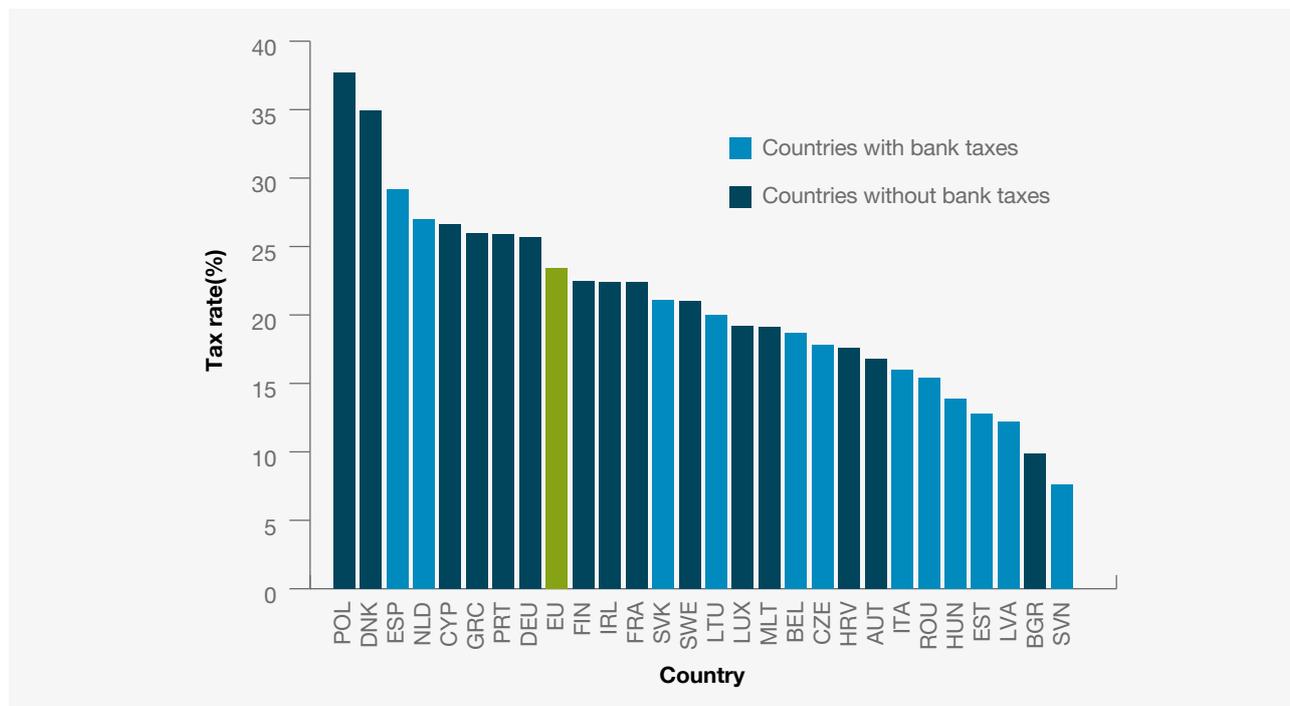
“Second, given their structurally low profitability, the profits of EU banks may frequently fall short of the normal rate of return of capital that is the economically justified threshold value of profits for the excess profits tax...”

“Third, since bank profits tend to be highly cyclical, also the fiscal revenue from excess profit taxes on banks will be cyclical – likely even more so than the fiscal revenue from regular profit taxes.”

“In practice so far, it may appear that the definition of “excess” profit that underlies the taxation of European banks is not necessarily tied to the concept of normal economic return on bank capital. For example, most countries that have introduced taxes on “excess” profits of banks have included the pandemic years into the calculation of historical averages used to define “normal” profits.”

Figure 2 shows the effect of bank specific taxes on overall bank tax rates and confirms that banks operating in countries with these taxes have a significantly higher tax burden.

Figure 2: Taxes as a % of pre-tax profit



Source: IMF report – Bank profits and bank taxes in the EU (2024)

Figure 3: Summary of new and increased banking taxes since 2022

Country	Tax Type	Tax Base / Description	Rate & Duration	Revenue (per year or total)	Revenue as % of RWAs
Estonia	Profit-Based	Bank profits via mandatory dividend distributions	20% in 2024, 22% in 2025 (2 years)	€120m over 2 years	0.3%
Latvia	Profit-Based	Bank profits (CIT) + mortgage borrower protection	20% CIT + 0.5% on mortgages (2024, one-off)	€120m CIT, €90m mortgage fee	0.9% / 0.8% respectively
Czech Republic	Profit-Based	“Excess” bank profits (over 2018–2021 avg.)	60% on excess profits (2023–2025)	€600m annually	0.5%
Slovakia	Profit-Based	Corporate income tax surcharge on bank profits	30% in 2024, declining to 15% by 2027 (3 years)	€340m in 2024, declining thereafter	0.9%
Hungary	Revenue-Based	Bank net revenue (interest margin & fee revenue)	10% in 2022, 8% in H1 2023, up to 30% in 2024 (2–3 years, extension expected)	€640m in first year	0.6%
Romania	Revenue-Based	Bank revenue (“turnover”)	2% in 2024–2025, increasing from 2026 (permanent at double rate from 2026)	€160m in 2024, halving in 2025	0.2%
Spain	Revenue-Based	Banks’ net revenue (domestic ops, excl. smaller banks)	4.8 percentage point surtax (2023–2025)	€1.2bn in 2023	0.1%
Lithuania	Net Interest Income-Based	“Excess” net interest income (>50% over 2018–2022 avg.)	60% on excess NII (19.5 months, 2023–2024)	€250m collected	1.2%
Italy	Net Interest Income-Based	“Excess” net interest income (>10% over 2021 levels)	40% one-off tax (option to allocate to reserves) (2023)	€3bn potential, most banks chose capital allocation option instead so revenues are far lower	0.25%
Belgium	Bank Levy Increase	Bank liabilities to customers (~67% of total liabilities)	Increased to 0.17% from 0.13% (permanent)	€150m annually	0.04%
Netherlands	Bank Levy Increase	Short-term (<1 yr) & long-term (>1 yr) bank liabilities (excl. deposits & equity)	0.06% short-term, 0.03% long-term (permanent)	€150m annually	0.02%
Slovenia	Bank Levy Increase	Total bank assets (capped at 30% of pre-tax profits)	0.2% of bank assets (5 years, for flood reconstruction)	€100m annually	0.3%

Source: IMF Report – Bank profits and bank taxes in the EU (2024)

The Italian government’s 2026 Budget Law⁸ included a number of tax changes aimed at banks. These include new tax charges on the release of the reserves created by banks as an alternative to the 2023 windfall tax described above, a 2% increase in the regional tax (IRAP), and restrictions on the corporate tax deductibility of loan write-downs, and interest expenses.

A view from the UK

The UK stands out from other European countries in the breadth of bank-specific tax measures which were introduced after the global financial crisis, and which remain in effect today.

The UK introduced a bank levy in 2011. It is an annual charge on banks' balance sheet liabilities less specified deductions. There are different rates for short term (< 1 year) and long term liabilities. The bank levy was originally imposed on the worldwide balance sheets of banks operating in the UK, but from 2016 onwards the rules were changed to apply the bank levy only to UK entities.

Unlike other large economies like France and Germany, the UK continues to apply the bank levy on balance sheets.

At the same time, a bank corporate tax surcharge was introduced. This works as an increase in the rate of general corporation tax for banks and has been applicable to profits of banks from April 2016.

The surcharge was specifically imposed on the profits of banks, excluding building societies, to ensure that banks continued to contribute a greater share to fiscal consolidation following the 2008 financial crisis, so they did not benefit from the plans announced in 2016 to reduce the general rate of corporation tax to 17% by 2020. Those corporation tax rate reductions were reversed from April 2023 onwards in light of COVID. The surcharge was reduced from 8% to 3% in April 2023.

This creates a combined corporation tax and surcharge rate of 28% for large banks in the UK. In addition to the banking surcharge, additional rules were introduced which directly or indirectly targeted banks in the UK, including restrictions on the use of brought forward tax losses which were initially targeted solely at banks and restrictions on corporation tax deductions for certain large-scale compensation expenses. Hence, higher rates of tax are also accompanied by a broader tax base.

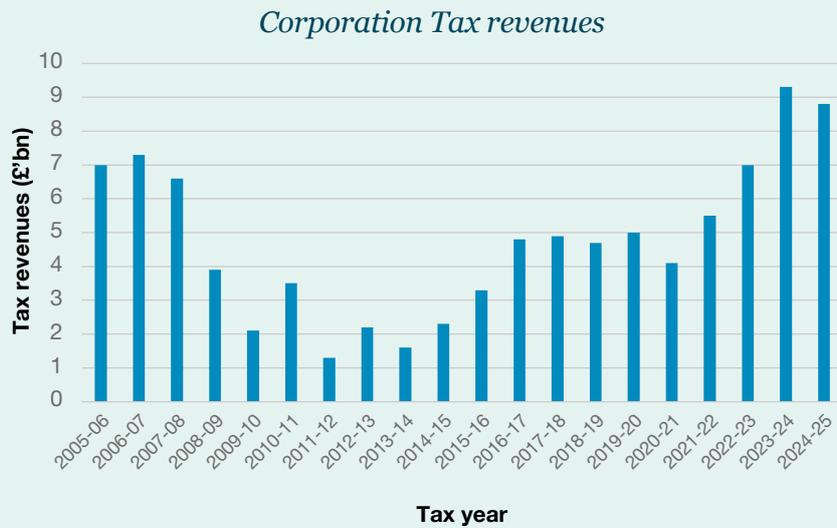
His Majesty's Revenue and Customs ('HMRC'), publishes annual statistics on the taxes paid by banks which are shown in Figures 4–6; these show that banks pay consistently high levels of corporation tax and employment taxes collected through Pay as you Earn (PAYE), and that the reduction in tax payments during and immediately after the global financial crisis has been comprehensively reversed.⁹

Figure 4: Employment tax revenues from banks:



Source: HMRC PAYE and corporate tax receipts from the banking sector (2025)

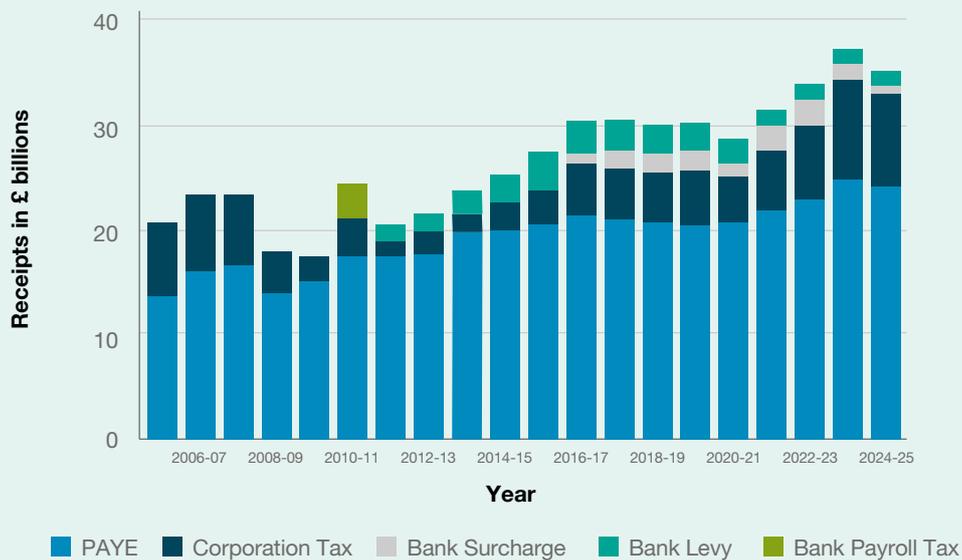
Figure 5: Corporation tax revenues from banks:



Source: HMRC PAYE and corporate tax receipts from the banking sector (2025)

HMRC data, as shown in the graph below, also indicate that bank levy and Bank corporation tax surcharge constitute a relatively small amount of the overall tax paid by banks.

Figure 6: Total tax payments made by banks



Source: HMRC PAYE and corporate tax receipts from the banking sector (2025)

These statistics show an ongoing upward trend on tax receipts from banks with other total tax contribution reports showing that banks are the single largest contributor by sector.¹⁰

HMRC data indicate that the financial sector (including insurance) paid more corporation tax than any other sector, accounting for nearly a quarter of total revenues.

1.3 Is there a windfall to tax?

KPMG's State of the Banks 2024 report¹² supports the IMF conclusions that banks have experienced low profitability and return on equity compared to other sectors. This is shown in Figure 7.

Even with the return to a higher interest rate environment in recent years, the point in the cyclical economy at which banks would expect to maximise their return on equity, the return on equity for EU and UK banks has been consistently below that of US banks, and materially lower than the wider service sector in the UK.

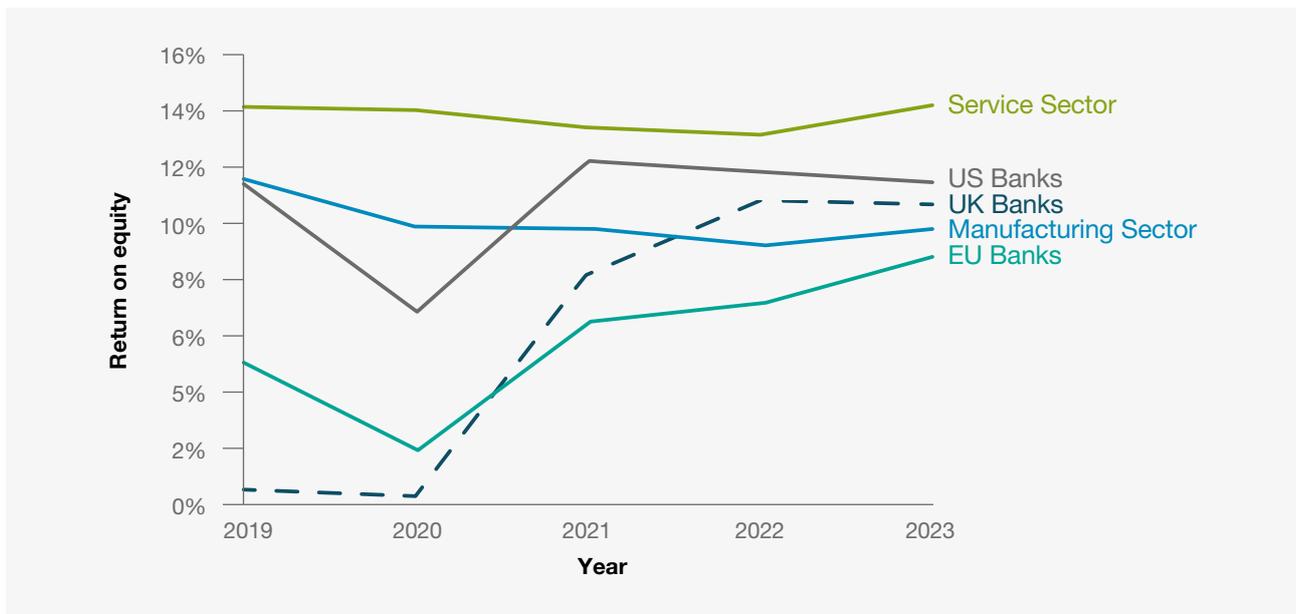
The introduction of bank-specific taxes may affect banks' ability to retain earnings and build capital buffers, with potential prudential implications.

A second IMF report¹¹ published in 2024 showed that return on equity for banks in Europe is significantly lower than before the financial crisis, showing return on equity before the crisis in Europe of between 10 and 13% and, between 2010 and 2021, between 5% and 7%.

In the same period, the return on equity for US banks was around 15% and in Canada returns had steadily increased from 7.5% immediately after the crisis to between 10% and 12.5% in 2021 (see figure 8).

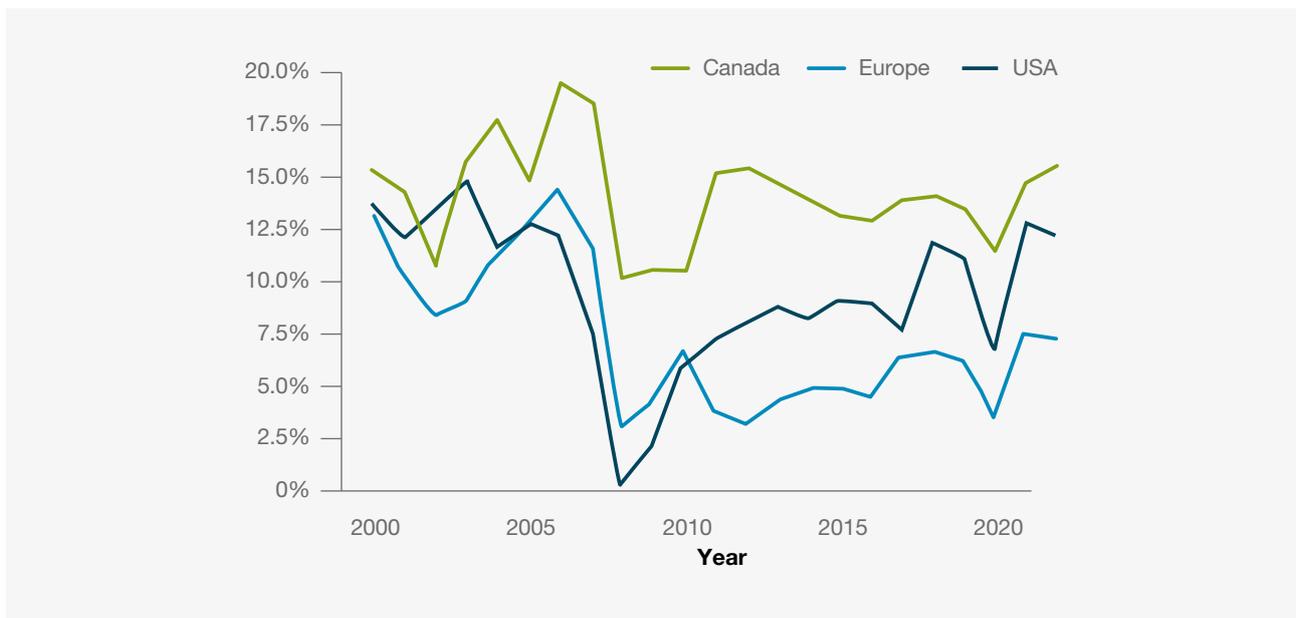
There is therefore limited evidence to suggest that banks are making 'excess' or 'extraordinary' profits by reference to the return on equity in other sectors. Instead, the current profitability remains consistent or lower than other sectors even at the peak of recent interest rate rises.

Figure 7: Pre-tax return on equity for various sectors¹²



Source: KPMG - State of the Banks 2024

Figure 8: Return on equity for US, Canadian and European banks based on IMF data



Source: KPMG - State of the Banks 2024

1.4 Impact of windfall taxes

The recent trend towards windfall taxes—introduced in response to rising profits in the banking sector — has introduced additional uncertainty into the operating environment for banks.

The ad hoc and often temporary nature of these taxes complicates strategic planning and long-term investment decisions, as institutions must contend with shifting fiscal policies that can alter profitability and risk profiles with little advance notice.

Banking profits are inherently cyclical, fluctuating in response to macroeconomic conditions, interest rate environments, and regulatory changes.

Defining what constitutes a “windfall” is therefore challenging, and risks misclassifying normal cyclical upswings as excess profits subject to additional taxation. This uncertainty may discourage investment.

Many of the taxes have been passed as temporary measures, with nine of the jurisdictions setting a time limit on the increased rates of tax. Temporary measures may still carry the unintended consequences of all banking taxes, but the fact that they are introduced on a temporary basis from the outset may reduce some of the impact. As noted above, some temporary measures introduced since 2022 have been extended, and in one case made permanent.

Comparison may be drawn to the UK introduction of banking taxes, in particular where bank levies and corporate tax surcharges remain in effect even after equivalent measures in other countries have been withdrawn.

IMF Report on EU Banking Taxes

In 2024, the IMF noted that it was “difficult to define normal and excess profits in the banking context, because profits are highly cyclical”.¹³

It also noted that given “structurally low profitability, the profits of EU banks may frequently fall short of the normal rate of return of capital that is the economically justified threshold value of profits for the excess profits tax...”

Overly aggressive taxation in profitable years may undermine the sector’s ability to withstand future downturns and support the real economy. In addition, measures that are initially put forward as extraordinary and short-term come with the risk of turning into long-term or permanent taxes.

One example is Spain, which has replaced its temporary levy on credit institutions with a new tax that has the characteristics of a permanent direct tax. The temporary levy applied in 2023 and 2024 at a rate of 4.8% on the total net interest and commission income earned by credit institutions (subject to certain conditions). The new tax has a similar tax base and was designed as a direct tax.

An opinion from the European Central Bank¹⁴ on the Spanish tax, when it was proposed in 2024 noted that: “the tax ... does not take into consideration the full business cycle and does not include, inter alia, operational expenses and the cost of credit risk.”

The report goes on to say that: “As a result, the amount of the tax may not be fully commensurate with the profitability of a credit institution and its capital generation capacity.”

1.5 Economic effects of bank specific taxes

Bank-specific taxes, whether levied on assets, liabilities, profits or transactions, are rarely absorbed entirely by financial institutions. In practice, these costs are often passed through to customers, either directly via increased fees or indirectly through less favourable lending and deposit terms.

Given the interconnected nature of financial flows, the burden of taxation tends to cascade through the system, ultimately impacting the cost and accessibility of financial services for both retail and business clients.

There is a considerable body of research highlighted in this report that indicates that bank specific taxes result in increased costs to borrowers in particular, with a corresponding drop in lending rates observed in response.

The consensus of research indicates that taxes on banks have an impact on consumers and the economy regardless of the nature of the underlying tax itself.

Whilst there is no empirical evidence demonstrating the consequences of removing the financial services exemption for VAT purposes, our report also demonstrates that the incidence of removing such an exemption is also likely to be passed onto consumers.

Pass-through effects represent a critical concern, with research indicating that approximately 76% of bank tax burden ultimately falls on customers through higher rates and fees. This pass-through particularly affects depositors and retail customers rather than wholesale market participants.¹⁵

Multiple studies confirm that the additional costs that are imposed affect the rates provided to customers via reduced deposit rates and increased lending rates.¹⁶ However, the effect is not universally agreed, as a 2013 study indicated that pass-through effects may be more modest than suggested by other research.¹⁷ However, that research was based on financial data from before the global financial crisis and may be distinguished from the wider research base due to use of data from an earlier period.¹⁸

A 2019 study conducted by the University of Valencia¹⁹ concluded that:

“Banks react to higher taxes by increasing their markups and by transferring part of the fiscal cost to households and firms through higher interest rates on loans.”

“The increase in government revenues comes at a cost of a long-run decrease in GDP, an increase in loans interest rates, and a reduction in the volume of credit, deposits and bank capital.”

The Japanese bank tax experience provides evidence showing reduced credit supply and decreased corporate investment following tax implementation.²⁰

The above studies show depositors are most affected by interest and fee rate adjustments, with pronounced pass-through effects particularly impacting rate-sensitive deposit products.²¹

Distributional effects vary significantly across customer segments. Research indicates small businesses and households bear a greater burden than institutional investors when taxes are passed through, as retail customers have less bargaining power and fewer alternatives.²²

Studies demonstrate that banks raise equity ratios by 1-1.5 percentage points in response to levies but these have limited effect on overall risk and may simultaneously increase asset risk to maintain returns.²³

ECB opinions consistently warn that bank levies may compromise institutions' ability to absorb losses during economic downturns, potentially affecting monetary policy transmission.²⁴

Studies of the Hungarian FTT also show that bank taxes can result in lower rates of interest for deposits, as well as increases in fees²⁵. This effect may fall disproportionately on households, as demand for bank services is not necessarily price-sensitive compared to other customers.²⁶

1.6 Impact on European competitiveness

The cumulative effect of bank-specific taxes raises the overall cost of doing business for European banks, particularly when compared to non-European markets with lighter tax burdens.

The Draghi Report highlights that the fragmented landscape of bank-specific taxes and financial regulations across the EU harms the Union's competitiveness versus other markets. Differing bank levies, transaction taxes, and tax bases across Member States increase compliance costs for financial institutions and raise the expense of cross-border operations. This fragmentation obstructs banking consolidation and reduces incentives for investment and innovation.

The 2024 IMF report⁷ concluded that differences contribute to uneven playing fields among banks operating in different jurisdictions and may distort the competitive environment.

The European Parliament report in June 2025⁵ concluded that having a heterogeneous range of banking taxes, using different tax bases and calculations could be reducing economic activity within the EU overall.

A subsequent IMF report²⁷ published in 2024 showed that return on equity for banks in Europe is both significantly lower than before the financial crisis and has been consistently lower than the equivalent return on equity for US and Canadian banks.

That report goes on to say that: *“...a hasty imposition of ad hoc taxes on banks' excess profits could dampen investor confidence, raise the cost of equity financing, and potentially inhibit banks' ability to finance the recovery from the current cyclical downturn.”*

1.7 Introducing complexity

The proliferation of bank-specific taxes across the EU and UK has introduced considerable complexity for banks, governments, and end-users. For banks operating in multiple jurisdictions, navigating divergent tax regimes adds significant administrative burden and compliance costs, particularly in cross-border services.

This patchwork of taxation can create distortions within the single market, potentially undermining the EU's goal of fostering internal competition and regulatory coherence. For governments, the design and collection of these taxes require ongoing coordination to avoid double taxation and unintended consequences.

Whilst tax is just a part of the intra-EU barriers for banking, a fragmented and burdensome fiscal environment has broader economic consequences. The Draghi report indicates that Europe's capital markets remain underdeveloped and bank-centric compared to markets like the US, where more integrated capital markets efficiently allocate resources.

The report points to critical fragmentation fault lines blocking capital market development: the absence of a single securities market regulator and harmonised rules, disparate clearing and settlement systems, and misaligned tax and insolvency frameworks across member states.

These create inefficiencies and reduce liquidity in EU financial markets. Draghi also calls for completing the Banking Union to overcome supervisory fragmentation that forces capital to be held separately at national levels, limiting intra-group capital flows.

The fragmented tax landscape imposes a cumulative cost on the EU's financial ecosystem, reducing its scale and integration. The Draghi report stresses that removing these internal barriers and achieving true market unity is essential for boosting the EU's competitiveness, fostering innovation, and closing the investment gap crucial to the EU's economic future.

The ECB issued an opinion on the tax changes in the Italian 2026 Budget Law stating that:

“While it is for Member States to design their tax regimes and distribute the fiscal burden, the recurring introduction of ad hoc tax provisions unduly increases policy uncertainty regarding the tax framework, damaging investor confidence and potentially also affecting credit institutions' funding costs. In addition, perceptions that the taxation framework is uncertain may give rise to extensive litigation, creating problems of legal uncertainty.”²⁸

1.8 Cumulative effect of banking taxes

Alongside the inefficiencies of fragmented taxes across Europe, the cumulative effect of bank levies, bank-specific taxes and financial transaction taxes can result in significantly higher tax burdens compared to other competing locations for international banking. This is illustrated in Figure 9, which confirms that banks in Europe are subject to higher corporate tax rates and more bank specific taxes than banks operating in the US or Asia, and in Figure 10 which confirms that London has the highest bank tax rate of any major financial services hub.

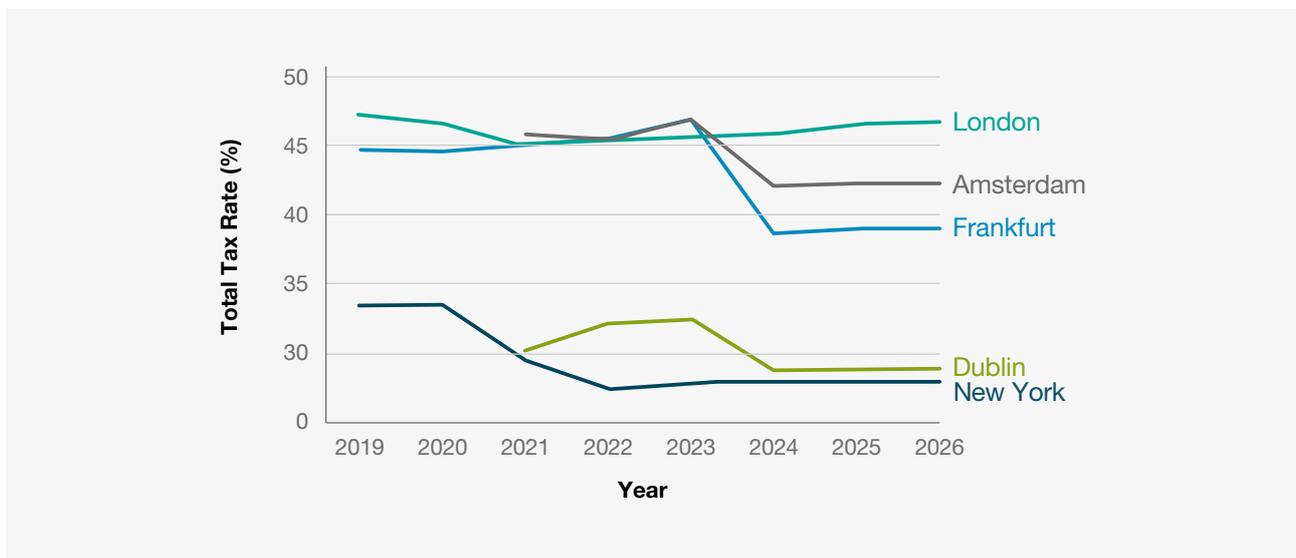
Figure 9: Comparison of bank-specific taxes in common banking hubs²⁹

Country	Statutory Corporate Tax Rate	Bank Levy	Banking-specific tax	Financial transaction tax
Germany	29.825%	SRF	No	No
Canada	26.5%	No	Yes ⁴	No
Netherlands	25.8%	Yes	No	No
France	25.825%	SRF	No ⁶	Yes
Spain	25%	Yes	Yes	Yes
UK	25%	Yes	Yes	Yes
Italy	24% ³	SRF	Yes	Yes
US	21% ⁵	No	No	No
Singapore	17%	No	No	No
Hong Kong	16.5%	No	No	Yes
Ireland	12.5% ¹	Yes ²	Yes	Yes

- ¹ The introduction of Pillar 2 rules into Irish law may result in companies paying a qualified domestic top-up tax up to the 15% minimum tax level.
- ² Excludes investment banking activity. Only applies to banks which received government funds during the financial crisis.
- ³ Plus IRAP at a rate of 6.65% for banks, vs 3.9% standard
- ⁴ Canada has a Financial Institutions Capital Tax (FICT) which is reduced 1:1 for income tax liabilities.
- ⁵ Plus applicable state taxes, ranging from 6 – 12%. New York has a 6.5% state tax.
- ⁶ Whilst not banking-specific, France has introduced a surcharge of 41.2% on large companies in 2025, resulting in an effective tax rate of 36.125% for FY2025.

Source: KPMG Data

Figure 10: Total Tax Rates for banking hubs³⁰



Source: UK Finance/ PwC - Total Tax Contribution of the UK banking sector

1.9 Practical challenges

Cross-border attribution for bank levies poses ongoing challenges for multinational banks. The allocation of liabilities and profits across jurisdictions requires sophisticated systems, particularly for branches and subsidiaries operating under different regulatory frameworks. Transfer pricing methodologies help allocate profits correctly, but bank-specific levies based on balance sheet positions can create additional complexity.

Branch calculations are particularly complex and however approached, tend to result in a non-level playing field between branch and subsidiary calculations which is inherently inefficient.

Coordination problems necessitate bilateral arrangements to prevent double taxation. The UK has established specific double taxation relief for certain overseas levies, including the SRF. The SRF creates challenges where banks operate both within and outside the Banking Union.

The European Parliament report on the taxation of the EU's financial sector states that:

“Fragmentation of the regulatory or tax treatment of the same economic activity across borders in the EU imposes costs and losses due to the unrealised economic activity in the EU”³¹

Domestic banking levies and bank specific taxes create administrative challenges for banks and tax authorities. The wide range of different tax rates, tax bases and application of tax rules creates complexity for banks in complying with each requirement, and challenges for tax authorities in validating and verifying compliance.

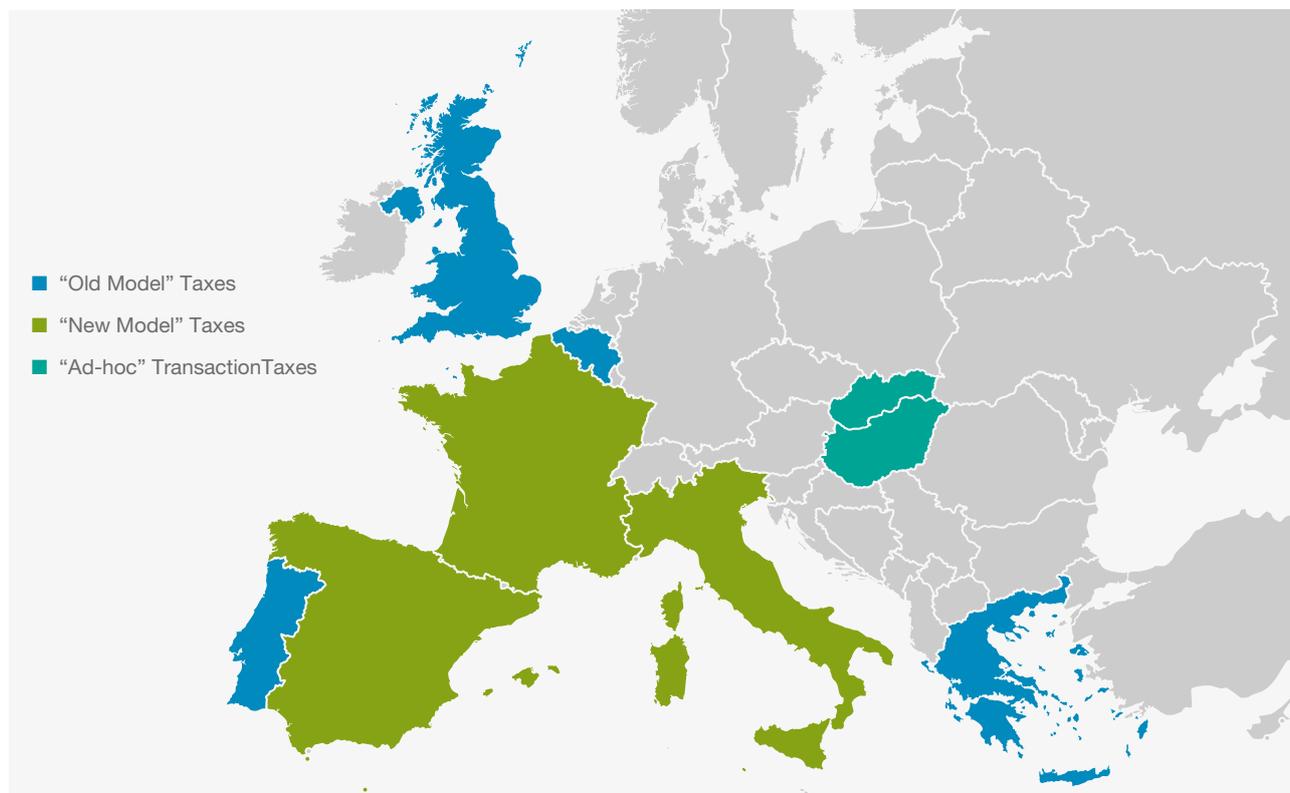
2. Financial Transaction Taxes

Financial transaction taxes (FTTs) are taxes on certain financial activities, most commonly buying or selling equities. FTTs across the EU and UK take different forms, shaped by national fiscal and regulatory priorities. These taxes broadly fall into three categories: traditional “old model” taxes like stamp duties and transfer levies, modernised “new model” approaches born from financial reforms, and novel “ad-hoc” taxes that target a wider set of financial activities.

Summary

- Overall, the FTT landscape is marked by a patchwork of rules, rates, and scopes, reflecting the varied policy objectives and financial ecosystems across Europe.
- Ten jurisdictions have a broadly applicable ‘financial transaction tax’, with considerable variation in how such taxes are designed and implemented.
- Experience from the introduction of equities transaction taxes in France, Italy and Spain indicates that the introduction of an FTT reduces market activity, at least in the short term, which results in lower revenues than initial estimates would suggest.
- Studies indicate that the majority of the tax burden falls on savers, primarily through pension savings.
- Revenues from FTTs are insignificant in the context of overall tax revenues and GDP as shown in Figures 12 and 13. Latest estimates included in a Copenhagen Economics⁵⁴ report suggest an EU-wide transaction tax on equities would raise €5 billion, less than 0.1% of total EU-27 tax revenues. However, this could result in a 1.1% drop in the market capitalisation on EU markets, and up to a 0.5% drop in EU GDP.

Figure 11: FTTs in Europe



Source: KPMG data

2.1 Stamp duties or “Old Model” Taxes

Some countries have longstanding stamp duties and transfer taxes. Typically, these transactions taxes are applicable for share purchases and may have other limitations based on residency or location of the issuing company. Many are deducted by the settlement system itself at the point of the transaction.

- The **UK stamp duty** on shares operates at a flat rate of 0.5%, with a number of exceptions, and represents one of the most established transaction tax systems in Europe. The UK has Stamp Duty Reserve Tax (SDRT) which applies to listed equities, with Stamp Duty applying to unlisted securities. These two taxes will be aligned in the future. There is also a separate 1.5% charge on transfers of equities into a clearance service or depositary receipt system.
- **Irish stamp duty** shares similarities in design to the UK but also has critical differences from the UK regime. It applies at 1% on share transfers with no de minimis applied. Ireland’s 2026 Budget introduced an exemption for companies with a market capitalisation of under €1bn, which brings the Irish stamp duty into greater alignment with the French and Spanish FTTs, albeit with a higher tax rate. The exemption is time limited and expires on 31 December 2030. Based on market capitalisation at 1 December 2025, the exemption applies to a majority of companies whose shares are quoted on Euronext Dublin.³²
- **Belgian stock exchange tax** ranges from 0.12% to 1.32% depending on the type of security, with 0.35% applying to most stock transactions. It only applies to Belgian resident individuals and companies but can apply to both the buy and sell side of the transaction.
- **Greece** has a **stock exchange transaction tax** which applies to stocks cleared through an exchange in Greece, or for stocks cleared outside Greece, only in the case of a Greek tax resident as purchaser. The rate is 0.2%.
- **Portuguese stamp duty** takes a broader approach, covering certain financial products at rates between 0.04% and 0.6% depending on maturity, with specific provisions for loans, guarantees, and interest payments.

2.2 EU FTT

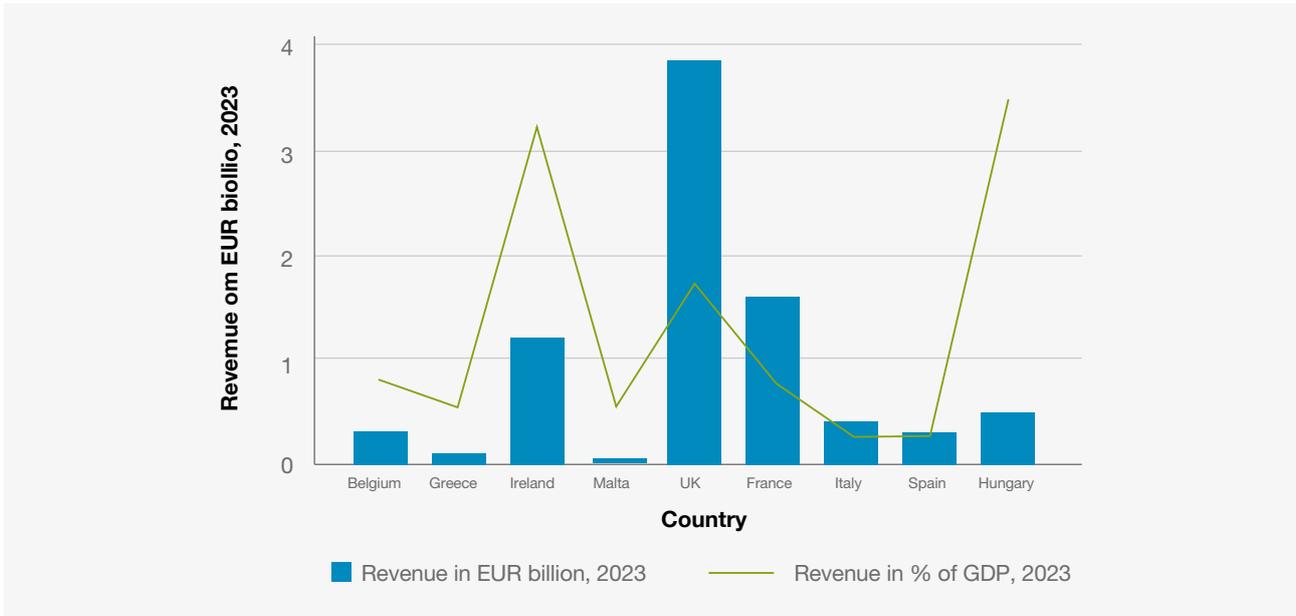
In September 2011 the European Commission proposed an EU-wide FTT covering all 27 Member States at rates of 0.1% for securities and 0.01% for derivatives.

After failing to reach consensus by mid-2012, eleven Member States - Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia, and Slovakia - requested authorisation to proceed under the EU’s enhanced cooperation procedure. The Council authorised this request in January 2013, creating the “EU-11” framework. However, the harmonised EU-11 FTT did not materialise due to continued disagreements over scope and design and was finally withdrawn from consideration in October 2025 as part of the Commission’s 2026 Work Programme.

France launched its FTT in August 2012, Italy followed in March 2013, and Spain implemented its version in January 2021. Portugal passed enabling legislation as part of its State Budget Law for 2013. However, Portugal never actually implemented the tax, and it remained dormant legislation that was never brought into effect.

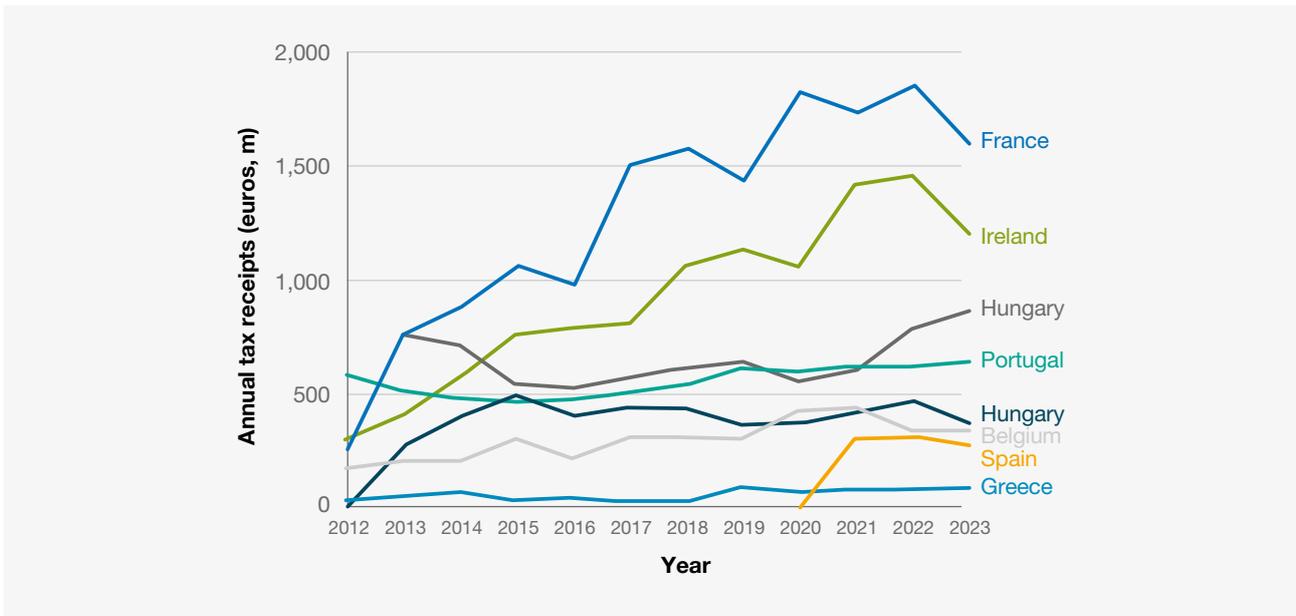
Based on the EU’s data on taxation trends, the revenues from financial transaction taxes have been increasing over the past 10 years. Only two EU transaction tax regimes raise more than €1 billion per year, France and Ireland.

Figure 12: Transaction Tax Revenues in Europe in absolute terms and as a percentage of GDP (2023).



Source: European Parliament - The taxation of the EU's financial sector

Figure 13: Annual Tax Receipts from transaction taxes in the EU



Source: European Parliament - The taxation of the EU's financial sector

2.3 “New Model” Taxes

France

Structure and Implementation

The French FTT represents the most studied example of the “new model” approach. Introduced in August 2012 and subsequently modified, it applies to acquisitions of shares in French companies with a market capitalisation exceeding €1 billion on December 1 of the previous year. The rate has been increased from the initial 0.2% and the current rate of 0.4% applies to the acquisition value excluding transaction costs.

The tax operates on the “issuance principle”, meaning it applies to French securities regardless of transaction location or party residence. The accountable party is typically the investment services provider executing the buy order, with sophisticated rules for determining liability in complex transaction chains.

Exemptions and Design Features

The French system includes several important exemptions: primary market transactions, intraday transactions (positions opened and closed on the same day), acquisitions in the course of market-making activities, by pension funds and related parties and netting reliefs. These exemptions aim to minimize impact on legitimate market functions while capturing speculative trading.

Economic Impacts

Research by the European Central Bank found that the French FTT reduced trading volume by approximately 10% on average, with significant heterogeneity across stocks. Stocks under Euronext’s Supplemental Liquidity Provider program were minimally affected, while other stocks showed a 20% reduction in trading volume.³³

The same study revealed that high-frequency traders, despite being effectively exempt through the intraday exemption, reduced their trading activity by 35%. The study goes on to indicate that this drop was due to a “liquidity effect”, with an increase in bid/ask spreads and liquidity reduced the opportunity for profit-seeking from traders. The study concludes that this metric demonstrates that the tax’s impact extends beyond directly taxed transactions through changes in behaviours.

Italy

Italy launched its Financial Transaction Tax (IFTT) on 1 March 2013, with rates originally set at 0.1% for regulated market transactions and 0.2% for over-the-counter trades on shares of Italian companies with market capitalisation exceeding €500 million. The system extended to derivatives with Italian underlying assets and included a high-frequency trading levy of 0.02% on modified or cancelled orders. In December 2025 the Italian government announced that the rates would be doubled with effect from 1 January 2026.

The Italian authorities encountered significant technical and administrative challenges. The European Commission’s 2016 assessment highlighted that “particular difficulties have been encountered by the Italian authorities with regard to IFTT on equity derivatives, especially since such contracts are not generally taxed on a transaction-by-transaction basis by other national FTTs”.³⁴

The impact on Italian markets was immediate and substantial. Credit Suisse research documented that average daily trading in Italian stocks fell by 29.7% compared to the January-February 2013 baseline, while other European stocks increased by 4.5% over the same period - representing a 34.2% relative decline for Italy.³⁵ Behavioural changes and enforcement challenges in collecting taxes on cross-border transactions resulted in a substantial shortfall in revenues.

Due to differential rates between OTC transactions and on-market transactions, it has been speculated that there was a substantial shift in trading activity to on-market transactions amongst the wider drop in activity.³⁶

The Italian Ministry of Finance collected only €159 million in the first seven months (March-September 2013), significantly below the expected annual revenue of €1 billion. This substantial shortfall reflected both behavioral changes and enforcement challenges in collecting taxes on cross-border transactions.³⁷ More recent estimates indicate annual revenues of between €400m³⁸ and €500m.³⁹

Spain

Spain implemented its FTT on 18 January 2021, during the COVID-19 pandemic, applying a uniform 0.2% rate to acquisitions of shares in Spanish companies with a market capitalisation exceeding €1 billion. The timing created additional complexity in assessing the tax's isolated impact, as market conditions were already highly volatile.

The Spanish system incorporated lessons from earlier implementations, applying a uniform rate across all transaction venues (regulated markets and OTC) and setting a higher market capitalisation threshold (€1 billion vs Italy's €500 million). This narrower scope covered approximately 60 companies representing about 8% of Spain's GDP.

Spanish National Securities Market Commission research using difference-in-differences methodology found that the FTT led to a short-term reduction in trading volumes of approximately 20% for affected stocks.⁴⁰

Spanish government expectations of collecting around €850 million in 2021 through the FTT reflected more conservative projections based on the Italian experience. However, concerns about capital migration emerged early, with analysts noting that "capital will tend to migrate to markets where it is not present, as seems to be reflected by the sharp fall in the amount of equities traded in our market during the first five months of the year".⁴¹

Figure 14: Comparison of FTTs in France, Italy and Spain

	France	Italy	Spain
Launch Date	August 1, 2012	March 1, 2013	January 18, 2021
Current Tax Rate	0.40%	0.2% (exchange) / 0.4% (OTC)	0.20%
Market Cap Threshold	€1 billion+	€500 million+	€1 billion+
Scope Definition	French company shares	Italian company shares + derivatives	Spanish company shares
Tax Base	Acquisition value	Transaction value	Acquisition value
Intraday Exemption	Yes (same day open/close)	Limited	Yes (same day open/close)
Market Maker Exemption	Yes	Yes	Yes
Pension Fund Exemption	Yes	Yes	Yes
Expected Annual Revenue	€1.6 billion	€1 billion	€850 million
Actual Revenue (First Year)	€171 million (2012 partial)	€159 million (7 months)	Not available
Current Revenue	€1.605 billion (2023)	€492 million (2015) ⁴² €400 million (2025 EP report) ⁴³	€300 million (2025 EP report) ⁴⁴

Source: KPMG data

2.4 Design Evolution

Spain's design represents the most refined approach, seeking to incorporate lessons from predecessors' challenges in terms of market fragmentation, administrative complexity and compliance.

All three countries faced similar trade-offs between revenue generation and market disruption. France achieved the best balance over time, with revenues reaching €1 billion per annum over the longer term. Italy's complex structure undermined both revenue and market function, while Spain's refined approach shows promise but requires longer-term assessment.

The three implementations collectively demonstrate that while FTT design can be refined to minimize market disruption, fundamental challenges around cross-border enforcement, trading volume reduction, and competitive positioning persist regardless of design choices. Spain's approach represents current best practice within the inherent limitations of unilateral FTT implementation in integrated European capital markets.

A view from Germany

Germany was among the EU Member States that supported the proposal to introduce an EU FTT through enhanced cooperation in 2013.

In the years that followed, the idea of introducing an FTT remained a recurring topic of political debate. However, the implementation of a national FTT proved unrealistic due to divergent positions within governing coalitions—with the Social Democrats and the Green Party in favour, and the CDU/CSU and the Liberal Party sceptical or opposed. As a result, the only politically viable compromise was a shared commitment to support a European-level FTT, without pursuing national legislation.

This approach is reflected in the coalition agreement of the current government formed by the CDU/CSU and the Social Democrats in 2025. The agreement does not mention the introduction of a national FTT but reaffirms Germany's support for a European-level initiative on FTT.

Therefore, Germany currently has no bank-specific taxes beyond contributions to the Single Resolution Fund. The German bank levy collected between 2011 and 2014, served as bridge financing during the Single Resolution Fund's build-up phase, from 1 January 2016 to 31 December 2023.

Even the brief period of Germany's bank levy has been challenged in German courts, with the Administrative Court of Frankfurt am Main ruling in September 2025 that the Federal Financial Supervisory Authority (BaFin) must reimburse contributions to the Restructuring Fund—commonly referred to as the German Bank Levy—to three banks. The institutions will receive a total of nearly one billion euros, representing payments made between 2011 and 2014.

2.5 “Ad hoc” Transaction Taxes

Hungary

Hungary's financial transaction tax covers both securities and payment services at a rate of 0.45% (previously 0.3%) with a cap of HUF 20,000 (approximately €50) per transaction.

The securities tax applies where underlying securities have a Hungarian ISIN and the transaction is executed on behalf of a security account holder (both natural and legal person) that is resident in Hungary for tax purposes.

The payments tax applies to the following payment services: bank transfers, direct debits, cash payments from payment accounts (including cash withdrawals using a credit or debit card), cash transfers, debit and credit card payments, cashing cheques. Exchange of foreign currency and debt repayment are also subject to FTT even if they are not performed by payment service providers.

On 1 October 2024, Hungary introduced a supplementary financial transaction tax (FTT) on certain payment operations involving currency conversion.

Slovakia

Slovakia introduced its Financial Transaction Tax in 2024, applying to virtually all financial transactions by resident entities. The tax covers:

- 0.4% on outgoing payments (capped at €40)
- 0.8% on cash withdrawals (no cap)
- €2 annual fee on card payments
- 0.4% on recharged expenses (no cap)

The Slovak system creates challenges for multinational corporations with complex treasury arrangements, as it potentially taxes internal cash management transactions.

Interaction with reporting obligations

The introduction of FTTs on payments in Hungary and Slovakia has been accompanied by new reporting regimes focused on payments, including the EU-wide CESOP regime which tracks cross-border payments, and new Spanish reporting requirements on a wide range of payments which come into force from 1 January 2026.⁴⁵

The introduction of the Crypto-Assets Reporting Framework (CARF) will also capture novel payment mechanisms that use stablecoins and blockchain technology.

These differences point to fragmentation across the EU in addressing perceived tax risks related to payments, which includes a pan-European reporting regime covering billions of annual transactions (CESOP), specific national reporting provisions of which the Spanish rules are an example, and transaction taxes in two member states on payments. If there are perceived risks in this area then these should be addressed in a consistent way across all Member States, particularly given the free movement of payment services within the EU.

2.6 Jurisdictions with no or limited scope transaction taxes

Notwithstanding the above developments, 18 EU MS have no or limited scope transaction taxes: Austria, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Germany, Latvia, Lithuania, Luxembourg, Romania, Sweden and Slovenia.

Finland, Malta, the Netherlands and Poland have some taxes which might be referred to as transaction taxes, but which are only applicable in limited scenarios.⁴⁶

2.7 The macroeconomic impact of FTTs

Economic effects were anticipated and modelled by the adopting jurisdictions and were considered in detail as part of the EU-wide discussions. However, experience with adopted FTTs and wider research has indicated that the economic effects of FTTs are significant and drops in trading volume may be cause for concern.

Anticipated impact of EU FTT

Research by AFME and Oliver Wyman on the proposed EU FTT estimated annual costs to end-users of €30-50 billion from the proposed EU-11 FTT, comprising direct taxes (€10-15 billion), cascade effects (€15-30 billion), and liquidity effects (€5-10 billion).

These estimates suggest that financial intermediaries would pass most tax costs to end-users rather than absorbing them, noting in particular that the bid-ask price of securities was too small for the incidence of tax to fall on intermediaries.⁴⁷

The EU FTT included taxes on OTC and derivative transactions, aligned to the mode adopted by Italy. The report also concluded that the transaction tax cost for equities only would be approx. €8 billion to €10 billion. Although the subsequent collection of tax in France, Italy and Spain has been lower than original estimates, the three together do cost taxpayers almost €1.8 billion per year.

The Commission's own impact assessments showed considerable sensitivity to volume elasticity assumptions, including the impact of FTTs on trading behaviours, liquidity and alternative seeking. Revenue estimates range dramatically depending on assumed behavioural responses, from €16.4 billion to €433.9 billion for different tax rates and elasticity scenarios.⁴⁸

Independent research by Oxera concluded that the proposed FTT would have a “severe economic impact relative to the amount of revenue that it would raise”. The study estimated a marginal excess burden of 1.12, meaning each euro of tax revenue would reduce GDP by €1.12.⁴⁹

Measured impacts of FTTs

The European Central Bank’s research on the French FTT provides crucial evidence on liquidity effects.

“...results suggest that the French FTT was to a large extent a disguised tax on savers.”

The ECB study found that market quality, a broad term used in the report to differentiate ‘desirable’ transactions from other financial activity, deteriorated more significantly in less liquid stocks. This supported theoretical predictions about FTT impacts varying with underlying market characteristics, and that reductions in market liquidity could produce negative effects.⁵⁰

Studies consistently identify relocation of trading activity as a primary risk. The extraterritorial scope of “new model” taxes attempts to address this through the issuance principle, but enforcement challenges remain significant.

Research indicates that FTTs can trigger shifts toward alternative trading venues and instruments, potentially fragmenting European capital markets rather than harmonizing them.

Interestingly the ECB’s report indicated that there was no increased trading in American Depositary Receipts that were exempted from the French FTT, although notes that only six French stocks were in the sample.

Most recently, the Copenhagen Economics study from 2021⁵¹ estimated that there would be a 60% drop in revenues compared to a ‘static’ estimate derived from a simple calculation of trades x tax rate. They in turn used that to estimate the potential revenue from an EU FTT at 5 billion, lower than the €12 billion that might be estimated from a static calculation. They noted that this *“represents just below 0.1% of total EU-27 public tax revenue”*.

A recent study by AMAFI⁵² on consequences of the increase in the rate of the FTT from 0.3% to 0.4% from 1 April 2025 demonstrated that the trading volumes of French shares subject to the FTT have increased less rapidly, and have even declined after the rise, while French non-taxed securities have followed the upward trend observed in other markets.

UK Stamp Duty – the economic effects of Europe’s largest FTT

The UK’s stamp duty (including SDRT) on share transactions stands as the largest FTT revenue source in Europe, surpassing similar levies in France, Italy, and Spain, with an annual yield consistently exceeding £3 billion.⁵³

However, like other FTTs the tax has been criticised for its distortionary effects on investment behaviour and the competitiveness of UK capital markets. Most recently, in 2024, the Oxera report for the Centre of Policy Studies,⁵⁴ offers substantial evidence on the breadth and depth of these economic consequences.

Oxera’s analysis demonstrates that stamp duty directly increases the post-tax cost of equity for UK-listed companies by 0.65–0.79 percentage points, representing a substantial disincentive to capital formation and investment. By raising the hurdle rate for new investments, the tax dampens business expansion and innovation, with estimated annual business investment losses of up to £6.8 billion for FTSE All Share firms.

The report shows the same evidence for pass-through of the tax to savers documented elsewhere, with UK stamp duty leading to a reduction of approximately £6,051 in final pension value for the average individual saver.

Importantly, the Oxera report projects substantial macroeconomic gains from stamp duty abolition, with potential long-term GDP increases of between 0.2% and 0.7%. A one-off uplift of 4% in UK equity valuations is forecast, generating a capital gain of nearly £100 billion for market participants.

2.8 Impact on Capital Formation

Corporate Financing Costs

Research consistently identifies increased financing costs as a primary real economy effect.

The Copenhagen Economics study estimated that a FTT could increase corporate funding costs by 0.6 percentage points, potentially reducing long-term GDP by 0.2-0.5%.⁵⁵

Trading Volume and Market Liquidity

The French experience demonstrates significant trading volume reductions, particularly in less liquid stocks. Reduced liquidity increases transaction costs for all market participants, potentially deterring corporate financing through equity markets.

Comparable declines in trading activity have also been observed in other European markets implementing FTTs.

In Italy, trading volumes fell sharply; studies report reductions of up to 20% in the months immediately after implementation.³⁹

Similarly, Spain experienced notable decreases in traded volumes after its FTT was enacted. These cases underscore that the reduction in trading is not unique to France, but a recurring outcome in jurisdictions adopting such taxes, amplifying concerns over market liquidity and the overall competitiveness of European capital markets.

The Copenhagen Economics report concludes that FTTs *“act like a wedge, reducing the number of profitable trades... Thus, the FTT will create a ‘no trade zone’, where investors will not react to new information by rebalancing their portfolio, because the net gains of doing so will be less than the tax itself”*.

Both the Copenhagen Economics and European Parliament reports note that one argument *for* FTTs is that they have a positive impact on financial market stability, which follows from the ‘wedge’ analogy that investors are less likely to trade because of the cost to do so. However, the reports eventually dismiss this point due to inconclusive evidence.

These cases underscore that the reduction in trading is a recurring outcome in jurisdictions adopting such taxes, amplifying concerns over market liquidity and competitiveness of European capital markets. Studies consistently identify relocation of trading activity as a primary risk, and increased financing costs as the primary effect on the real economy.

2.9 Effects on the Real Economy

Cost Pass-Through to End-Users

Empirical evidence suggests that financial intermediaries pass FTT costs to end-users rather than absorbing them.

The Oliver Wyman study estimated that cascade effects would create greater additional costs than direct tax payments.

These cascade effects result from the fact that for a given end-user transaction there may be multiple steps and transaction taxes raised at each indicating substantial cost pass-through risks for investors.⁵⁶

The Copenhagen Economics study indicates that there would be a fall in value of stock markets across Europe equivalent to the net present value of all future transaction taxes. This would yield a 1.1% reduction in market capitalisation, which would be substantially passed onto savers through pension investments.

Impact on Different Investor Classes

Research indicates differential impacts across investor types. Pension funds, despite exemptions in some systems, face costs through reduced portfolio values.

The European Fund and Asset Management Association has argued that exemptions provide only partial protection due to cascade effects and market impact.^{57,58}

A view from France: Approach to bank-specific taxes

Following the Global Financial Crisis, France introduced both a bank levy and a FTT. Subsequently, France removed its bank levy and French banks contribute to the Single Resolution Fund (SRF).

As with Italy and Spain, the FTT applies the issuance principle, capturing transactions in French securities regardless of location. Enforcement depends on cooperation from foreign financial institutions.

When it was initially introduced, there was a movement from in-scope equities to out-of-scope equities in the French markets.

French equities with a market cap greater than €1B saw their equity volumes fall by 24 percent. Over the same period, non-French equities with a market cap greater than a €1B enjoyed 28 percent higher equity volumes.⁵⁹

The rate of tax on French equities has been increased twice since inception, initially from 0.2% to 0.3% in 2017 and then in 2025 to 0.4%.

Since the return to a normal interest rate environment in 2022, there has been discussion of taxes targeting banks in response to the increased profits being made by banks. The 2026 French Finance Bill includes an exceptional contribution for all large companies (Revenue > €3billion), set at 41.2% of the average corporate income tax in the current and prior year. This results in an effective tax rate of 36.125% for large corporates, including banks.

2.10 Technical Complexity and Implementation

Complexity

The evolution from broad-scope proposals to narrow implementations reflects the technical complexity of defining taxable events. The French system's detailed rules for determining acquisition events, including corporate actions, derivative settlements, and conversion of convertible bonds, illustrate the complexity required for effective implementation.

Technical challenges include determining transaction timing for tax purposes, with different systems using trade date, settlement date, or allowing taxpayer election. Valuation methodologies vary significantly, particularly for transactions without explicit pricing.

Preventing multiple taxation within transaction chains requires sophisticated rules for determining ultimate liability. The French system's "accountable party" rules and exemptions for agency transactions represent one approach, but implementation complexity remains substantial.

Cross-border Enforcement: Extraterritorial Application

The issuance principle adopted by France, Italy and Spain attempts to capture transactions in domestic securities regardless of location. However, enforcement relies on cooperation from foreign financial institutions and regulators, creating potential gaps.

Hungary's extension to cross-border service providers demonstrates an alternative approach but raises questions about practical enforcement mechanisms. The requirement for non-resident service providers to register with Hungarian authorities creates compliance burdens that may deter market participation.

Administration and Compliance Costs

Most systems rely on financial intermediaries for collection, creating administrative burdens and compliance costs that may be passed onto end-users. The French system's use of Euroclear France for centralised collection represents one model, while other systems rely on individual institution reporting.

Administrative complexity varies significantly across systems. The Italian system requires comprehensive reporting of both taxable and exempt transactions, while other systems focus only on taxable events. Slovakia's broad scope creates reporting challenges for entities with high transaction volumes.

Fragmentation vs. Harmonisation

The patchwork of different national FTTs creates market fragmentation rather than the harmonisation originally sought through EU-wide proposals. This fragmentation may undermine the Capital Markets Union objectives by creating barriers to cross-border investment.

Different national approaches create competitive distortions between financial centres and may encourage regulatory arbitrage. The European Commission has acknowledged that divergent national approaches risk fragmenting the internal market for financial services.

FTTs add to existing cross-border transaction costs in European capital markets. Research indicates that fragmented post-trade infrastructure already creates barriers to cross-border investment, which FTTs may exacerbate.

EU Treaty Implications

After the introduction of the Italian FTT, The ECJ was asked to decide whether the scope of the Italian financial transaction tax violates EU Law (*Case C-565/18, Société Générale*).

The ECJ ultimately ruled in 2020 that this approach did not violate EU free movement principles but noted that "the practical implementation of such a broad scope will inevitably lead to burdensome obligations for the taxpayer".

A similar case concerning the enforcement of Belgian transaction taxes (*Case C-725/18, A. Van Zantbeek VOF*) considered whether certain formalities imposed on Belgian residents in order to levy the Belgian FTT on transactions involving a foreign intermediary could be considered a breach of EU Law. The ECJ decided that the Belgian rules indeed established a difference in treatment, but that the additional obligations were proportionate and could thus be justified.

"the practical implementation of such a broad scope will inevitably lead to burdensome obligations for the taxpayer"

Capital Movement Restrictions

The Portuguese Supreme Administrative Court's referral to the European Court of Justice (*Case C-420/23, Faurécia – Assentos de Automóvel Lda versus Autoridade Tributária e Aduaneira*) regarding stamp duty exemptions highlights potential conflicts between national FTTs and EU free movement principles.

The case considered whether restricting exemptions based on counterparty location violates capital movement freedoms and considered that an exemption for short-term liquidity between domestic parties needed to consider the application to other EU parties to support the free movement of capital.

This decision highlights that even when considering a purely domestic transaction tax, European tax authorities must ensure that measures or exemptions are applied equally for all EU participants.

3. VAT and Financial Services

VAT exemptions for financial and insurance services have created significant economic distortions across the EU's financial sector. Banks within the EU alone face an estimated €45.9 billion annually in irrecoverable VAT. Similarly in the UK, PwC estimates that the total irrecoverable VAT cost was £4.3 billion for 2024-25.

The European Commission has explored reform of the VAT exemptions for financial services, ranging from the complete abolition of the exemptions to a partial taxation of fee-based services. These reforms have stalled due to (among other things) concerns over consumer impact during the cost-of-living crisis and the technical complexity of overhauling VAT treatment for an industry where traditional invoice-credit mechanisms do not easily apply to margin-based products. The Commission is now picking up the topic once more, with a view to assessing the effects of the exemptions and exploring alternative options.

The subsequent analysis deep-dives into the financial services exemptions, ultimately reinforcing the conclusion that although needing an update, the exemptions serve an important role in enabling efficient and well-functioning markets.

Summary

- **Under EU and UK law, the supply of most financial services is exempt from VAT.**
- **As a result of the exemptions, banks in Europe pay over €45 billion per year in irrecoverable VAT, which is an expense to the bank adding to total tax contribution.**
- **Removing the FS exemption would result in practical and political challenges for tax authorities and the wider economy, with the potential for individuals, social enterprises and others not eligible to reclaim VAT as the most negatively affected.**
- **The FS VAT exemptions have not been updated for some time and are increasingly uncertain in their application to banking business. Accordingly, clarification of the exemptions applicable to FS businesses is core to delivering tax certainty, reducing disputes and supporting compliance.**

3.1 Overview

This section will outline the fundamentals of the VAT system in the EU. It will also highlight the critical importance of the exemptions for private consumers across all Member States, as well as the certainty required by banks on the scope of the exemptions themselves.

Granular data on irrecoverable VAT in the sectors is not formally published by any countries. In 2017, the European Commission recorded that financial services entities contributed €45.9bn in irrecoverable VAT costs per annum.⁶⁰ These numbers have likely increased.

In the UK, PwC estimated that the total irrecoverable VAT cost was £4.3bn for 2024-25.⁶¹ Irrecoverable VAT also accounted for 22.6% of the total taxes borne by participants of the Report.⁶²

Separately, in the EU, PwC model that irrecoverable VAT costs range from 5.5–6.6% in Germany, Ireland and the Netherlands as a percentage of banks' profit.⁶³

Financial services companies have factored these costs into their business and charging models since the inception of indirect taxes and accept they are a cost of doing business.

The financial services VAT exemptions exist for a number of reasons. Primarily, the exemptions provide a level of protection to private consumers who would otherwise bear the full cost of VAT for financial services. Additionally, there are difficulties with charging VAT on financial products insofar as defining what the taxable base should be; financial products do not often expressly state the price charged, such as deposits. For example, with derivatives it would not be clear if the taxable base is the cashflow under the derivative, the risk return or the final margin delta.

Below, we consider two main scenarios where VAT exemptions are removed:

- a. the impact on consumers where the financial services VAT exemptions are removed in their entirety; and
- b. VAT exemption is preserved for the consumer market but removed on business transactions. The impact on business is considered.

For the purposes of these scenarios, it becomes clear that under (a) private consumers would bear the cost of VAT and would not be workable in practice. The removal of the exemptions would not only burden consumers financially, decreasing their spending power and undermining the aims pursued by the Commission in protecting consumers and promoting growth.

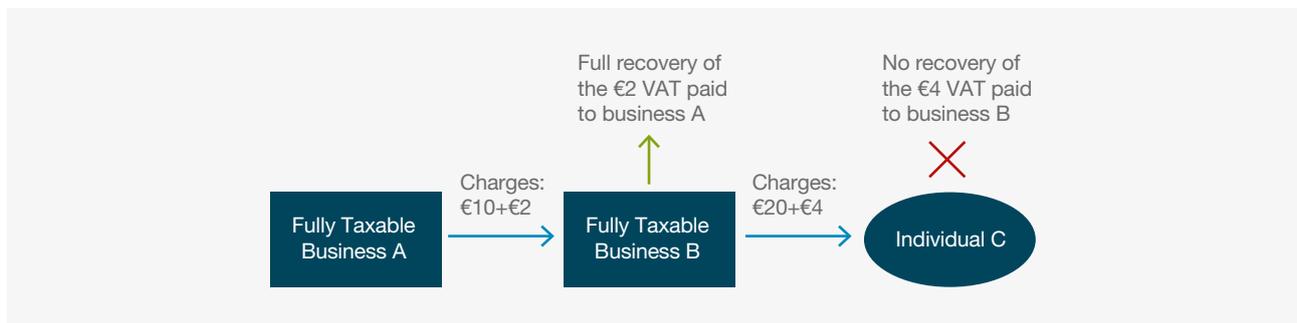
Under (b), we have retained financial services exemptions on private consumer products. VAT would create a barrier for business and their supply chains, leading to a lack of liquidity, whilst not raising a significant amount of additional tax revenue. In both instances, VAT fraud and compliance burdens increase.

3.2 The EU VAT System

VAT is a general tax on consumption by end users (applying Chapter 1A OECD International VAT/GST Guidelines). End users are the final party to a chain of transactions and are intended to be private individual consumers which the OECD describe as “households”.

VAT is charged in all stages of a transaction chain regardless of whether the consumer is an end user or not. In principle, VAT should not be a cost of businesses within a chain of transactions. Therefore, to ensure that only end users bear the cost, “taxable persons” (as defined under Art. 9 EU VAT Directive) may recover VAT charged to them. This is subject to various rules.

Individuals are not typically taxable persons, and cannot recover VAT. This principle is illustrated by the diagram example below.



Example 1: Incidence of recoverable VAT

Business A supplies B with goods/services for €10. At a VAT rate of 20%, €2 VAT is added to the price by business A.

As business B is a fully taxable person, it can recover the €2 VAT meaning that it is not a cost to it. Business B (being in the chain) then charges individual C €20 with €4 VAT (at 20%). Individual C is not a taxable person and cannot recover the €4 VAT.

Whilst business B would not face the cost of VAT, it incurs internal compliance costs given it has the burden of charging VAT on its invoices, reporting VAT on their VAT returns and paying/recovering VAT from the relevant tax authority.

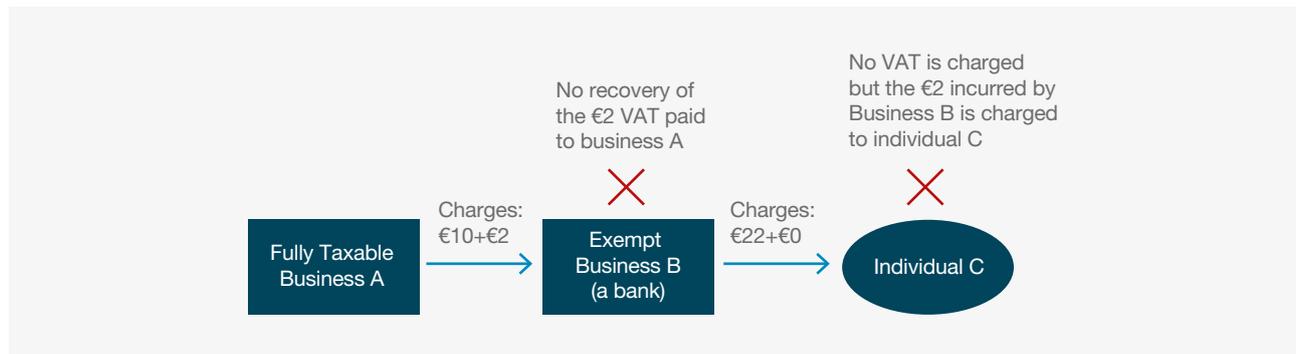
EU VAT Exemptions for Financial Services

VAT exemptions mean that (i) VAT is not charged by a business on its supply to the recipient; and (ii) that a business is treated as an end user of any VAT it incurs, and cannot recover the VAT.

Financial services are generally exempt from VAT in the EU. The precise reasons vary by exemption, but in general this is due to protecting the private consumer, the difficulty in determining the tax base, and preventing an increase in cost of finance (e.g. the free movement of capital). This will be explored further below.

In a consumer context, the effect of VAT exemptions is shown in the diagram below.

Example 2: Incidence of irrecoverable VAT



Business A charges €10 and €2 VAT to B (at a VAT rate of 20%). Business B makes VAT exempt supplies to C. The VAT on the goods/services that B has bought from A is not recoverable by B as it is now an end user. This creates a large irrecoverable VAT cost for business B and a tax take for the relevant tax authority which would not exist for taxable businesses.

Commercially, B will often include the cost of VAT it pays (it is assumed here that this is the full €2, however it can often be less than this because they will in practice recover some VAT) in the price charged to C. Therefore, whilst no VAT is charged to C, an incremental cost is incurred by consumers as part of the onward charge. Whilst it appears that the VAT can be somewhat neutral on business B, this is not the case as it impacts both the available capital and margins chargeable by B, as well as the overall profit.

Therefore, the impact of the VAT exemptions is that (i) financial services have a lower price for final consumers, as the effective tax rate is lower compared to charging VAT; meanwhile (ii) financial services have a higher price for business customers, as irrecoverable VAT is passed through and then compounded with VAT being charged.

Previous EU Reform Proposals

Following on from initiatives that began in 2007, in February 2021 the European Commission re-launched a comprehensive public consultation on VAT reform in the financial sector. Four options were presented:

- **Complete abolition** - applying standard VAT rates to all financial services;
- **Partial reform** - targeting only fee-based services while maintaining exemptions for margin-based products like loans;
- **Enhanced opt-in mechanisms** - mandatory availability across all member states for B2B transactions; and
- **Alternative models** including zero-rating for regulated services to businesses and reduced rates for consumer services.

These reforms were ultimately abandoned partly in response to a high inflationary environment, with Member States fearing additional consumer cost burdens during the cost-of-living crisis.

Reform efforts were then integrated into a broader financial sector taxation review under the remit of European Commissioner Wopke Hoekstra⁶⁴. Syntesia, in partnership with other consulting firms and research institutions has been commissioned to undertake analysis and research into the impact of the financial services VAT exemptions in the EU⁶⁵.

VAT - A view from the UK

The UK's VAT regime for financial services is built around a broad exemption that removes VAT from core banking products but leaves institutions with substantial irrecoverable input VAT.

This irrecoverable VAT is now treated by policymakers and industry as a "sector tax" in its own right, sitting alongside the bank levy and bank surcharge in measuring the overall fiscal burden on the UK banking sector. UK Finance's 2023 Total Tax Contribution study with PwC estimates that irrecoverable VAT borne by participating banks is around £4.3 billion annually, making it one of the largest single taxes borne by the sector. As with the wider EU position, there would be significant negative implications for removing the FS exemption, but it should be recognised that a portion of the cost of the exemption is borne by banks.

Following the UK's departure from the EU, there has been an increase in the level of challenge and scrutiny on VAT treatment for financial services. In recent years, Target Group Ltd v HMRC has confirmed a relatively narrow interpretation of the FS exemption, with outsourced loan administration and similar services often treated as standard-rated rather than exempt, increasing irrecoverable VAT and undermining traditional assumptions that outsourcing could be structured to mirror the VAT outcome of in-house operations.

HMRC has also become more assertive in challenging long-standing VAT treatments, particularly in relation to outsourcing, cost-sharing, VAT grouping and Partial Exemption Special Methods. Reviews of longstanding PESMs and disputes over whether services are genuinely exempt financial transactions or taxable support functions create a perception that agreed positions are no longer durable, exposing firms to the risk of significant retrospective assessments and complicating business planning.

The result of HMRC's current approach may be significant deviations in the VAT position of banks in the UK compared to the wider EU. Whilst the UK is no longer bound by EU law around VAT, the tax continues to apply in much the same way in both the UK and the EU. Therefore, any deviations in practice that result in a worse position for UK banks would harm the overall competitiveness of the UK for banking services.

3.3 The economic impact of changes to the VAT system

VAT for private consumers

If financial services VAT exemptions were abolished entirely, then consumer supplies would bear VAT. Financial services businesses would be unlikely to absorb the tax costs out of existing margins and instead favour charging VAT in full to private consumers. This would have a negative impact across many important areas.

VAT on Savings

Charging VAT to private consumers on financial services negatively impacts their savings. For example, in fund management consumers are investing their own capital in the hopes of generating returns. The addition of VAT on these services would erode their private funds, possibly leading to them being less likely to engage with fund management services and invest their capital. Reducing the spending power of consumers negatively impacts growth and ultimately may cause them to be more reliant on the public purse as their investment returns have been reduced by VAT on the margins and financial institution fees.

VAT on Lending

In the consumer lending market traditional mortgage products appear fee-free because banks embed all operational costs within interest rate spreads. Removing the VAT exemption is likely to lead to incentivising separate fees, valuation charges, and ongoing servicing to create identifiable VAT charges which allow for the additional recovery of VAT. The result would be increased costs for private individuals who would pay VAT on the separate charges and fees.

The European Central Bank estimated that in January 2024 mortgagors were paying an average of over €1,100 per month in total housing-related costs, including utilities, home maintenance and mortgage costs. Removing exemption from lending would increase consumer costs per month and (i) in the worst case scenario, lead to an increase in missed payments and people losing their homes which would be exacerbated in higher interest environments; or (ii) in the best case scenario, substantially decrease the discretionary spending of consumers that would otherwise support the wider economy across the life of the mortgage.

The overall effect of this would mean that all financial service products covered by the exemptions would become far more unattractive to consumers, and act as a deterrent for consumers to 'do the right thing' and invest their capital and promote economic growth. Quite clearly, an increased cost for consumers and the effects noted above are not aims pursued by the Commission's proposed reforms. Indeed, this could damage consumer confidence and ultimately lead to less spending overall as savings and returns are eroded.

Administrative Burden of VAT

Practically, bringing financial services within the scope of VAT may lead to a landslide of VAT registrations. A private investor buying and selling securities into a Self-Invested Personal Pension or other directly held investment account may now be engaging in an economic activity by making margin on the securities and becoming VAT registrable. Whilst numbers are not available, it is reasonable to expect this would mean millions of new registrations per jurisdiction.

Additionally, there would be new information and reporting that would need to be undertaken, for example to enable a consumer to identify the counterparty to the sale of their units in a UCITS.

On that basis, it would be detrimental to remove VAT exemptions for financial products that are provided to consumers. Please also note the General Issues heading below, which are also applicable to consumers.

VAT for businesses

VAT exemptions could be retained for consumers, resolving the issues set out above. However, exemptions would be removed on supplies between businesses.

As financial services businesses have taxable supplies, it would:

- (a) enable previously irrecoverable VAT costs to be recovered by the financial services entities; and
- (b) not lead to any additional VAT cost on fully taxable businesses, who will recover the VAT. Instead, the VAT cost removed from Financial Services businesses will largely be shifted to and borne by other VAT exempt industries (such as health or education) or by private individuals down the transaction chain.

Irrecoverable VAT

The European Commission in 2022 estimated that the level of the "Exemption Gap" for financial services across the European Union is 2.01%. This means that only 2% of the total hypothetical VAT revenue is lost because of financial services exemptions, on which VAT could be collected if exemptions were abolished.⁶⁶ This was the smallest gap identified, with the assessment of the application of reduced rates and application to public services having much higher gaps.

Although the VAT exemptions lower headline VAT receipts, financial-sector VAT would be recovered by fully taxable business recipients, lowering potential net revenues as there is now less irrecoverable VAT built into the transaction chain. The overall effect of the removal of exemptions is therefore not a benefit to tax authorities, with a potentially reduced tax take.

VAT on Cash Flow

On the face of it, introducing VAT would appear to have no impact on fully taxable businesses. However, this may limit cash flow for businesses.

Consider a €500m revolving credit facility priced at 250bps (€12.5m in annual interest). The introduction of VAT (at 20%) on the interest element would require an additional €2.5m outlay to be funded either by the customer until reclaimed. This will create a clear recovery delay, with many small businesses not having the capital or liquidity to fund the VAT receivable for even a short period of time. This therefore potentially places an additional limit on the ability of financial institutions to lend to certain sectors and size of customer or at least places a limit on the amount which can be advanced.

Businesses benefit from having more cash readily available to them, as it can be quickly deployed and moved strategically. The cost of VAT on a business would introduce an added burden for them to account for, reducing the amount of cash immediately available. Whilst a business can subsequently recover the inputs paid on their supplies, the VAT return process can create a time 'lag' and stifles business ability to invest and add to the local economy.

VAT on Supply Chains

We also note that for other fully or partially exempt businesses, or those that cannot recover VAT, such as real-estate developers, hospitals, universities etc. this becomes an absolute additional VAT cost on the provision of capital. As set out above, as VAT is chargeable, at a starting point, on the full amount of interest due then a financial institution could not just absorb the cost from the margin being made which is only an element of the overall interest charge to the customer.

Introducing VAT on financial services therefore leads to inequality throughout multiple industries by raising costs, since finance is a common thread that enables commercial activity, investment and growth. These three points also compound to deter businesses from taking out sensible or prudent financial products, such as hedging or futures, as the costs may outweigh the immediate risk thereby undercutting a whole line of business in the financial services sector.

For large and multinational corporates, the VAT may be neutral in the long run but still introduces liquidity costs. For exempt or partially exempt businesses, VAT becomes an outright cost of capital either directly through the VAT being charged or through the financial institution increasing the margin charged to cover the cost.

General Issues

Where exemption is removed wholly or in part, there is now a substantial amount of “new” VAT in the system making it susceptible to operational issues. This includes compliance and fraud.

For example, every day there are millions of financial transactions across Europe. For example, the European Central Bank’s statistics set out that there were 177.2 billion non-cash transactions (i.e. card, credit transfer, direct debit and e-money payments) in 2024, totaling €263.1 trillion in the European Union.⁶⁷

Alternatively, in 2024 the total notional value traded in European corporate bonds was €5,397 billion.⁶⁸ These transactions presently have no VAT charged either on margin(s) or other fees and represent a huge amount of cashflow washing through the system. This will similarly be the case in the bonds and other markets.

If VAT is levied on implicit fees and other charges in these markets, then a significant amount of ‘new’ VAT becomes chargeable and recoverable. This requires administration, compliance, audit etc. for an overall potential small net gain.

There would be substantial implementation costs that would accompany any comprehensive VAT reform for financial services across the EU-27 for initial system upgrades and compliance infrastructure. This would encompass mandatory IT system overhauls to ensure the issue of tax invoices, new accounting procedures, staff training, and legal compliance frameworks required to transition from exemption-based to taxable service models.

Large financial institutions would face the biggest individual implementation expenses per entity for core system modifications, with smaller banks, insurance companies and potentially private individuals also incurring additional expenses. Each Tax Authority would need to cope with the vast amount of information and registrations each quarter, as well as the likelihood of errors as a result of the high amount of transactions undertaken by banks and the introduction of those private consumers.

Finally, the introduction of VAT on financial services creates new risks for VAT fraud to be undertaken by businesses and end consumers. Whilst financial services is a heavily regulated industry, the possibility of complex structures being implemented involving high value intangibles, offshoring and less transparent regimes creates fraud risk, which has been seen in other areas of reform.

For example, the EU Emissions Trading System market has had various issues with VAT fraud. Once discovered, this led to temporary suspension of the markets and a significant drop in transaction volume. Whilst a derogation that is subject to renewal in the EU, in 2009 the UK Government revised the treatment, removing the ability to claim VAT on the sale of carbon credits in the UK.

With the increase in VAT registrations for individuals, this would give rise to additional risks of VAT fraud that may go missed due to limited capacity of the tax authority to audit many more taxable persons.

4. The role of banks in tax administration

Banks have always played a role in the administration of withholding taxes on investors, but the level of involvement of banks as intermediaries on behalf of tax authorities has expanded to support governments with respect to combatting tax evasion, anti-tax avoidance measures and wider reporting to support tax compliance and administration.

Since the introduction of the Common Reporting Standard under the Directive on Administrative Co-operation (CRS/DAC2) from 1 January 2016, banks have been asked to provide an increasing level of information to tax authorities to support compliance activities.

The level of information has continued to expand and includes reporting on tax planning measures under Mandatory Disclosures regimes (DAC6), information on cross-border payments under Central Electronic System of Payments reporting (CESOP), and is set to grow again from 2026 with reporting on tokenised assets under the Crypto-Asset Reporting Framework (CARF/DAC8) – a potentially expansive inclusion of transaction-level reporting where banks use blockchain technology.

At the same time, the role of banks under domestic legislation covering both information reporting and the oversight of withholding taxes on investments has also grown. Jurisdictions have expanded, enhanced or introduced more onerous requirements that banks must apply to support their clients and counterparties.

These too will increase in future years, as the implementation of the Faster and Safer Tax Relief of Excess Withholding Taxes (FASTER) Directive is expected to impose significant reporting and withholding obligations on Certified Financial Intermediaries (CFIs).

4.1 International information reporting regimes

The OECD and EU have introduced five tax transparency regimes which require banks to report information in relation to the customers' and counterparties' tax affairs. In addition, a global regime introduced in the US was implemented into domestic law as a result of Intergovernmental Agreements (IGAs) concluded between European and US Tax Authorities.

Title	Start date	Summary
Directive 2011/16	See below	Directive on Administrative Co-operation 'DAC' . Established automatic exchange of information between Member States but only for information held by national authorities.
US Hiring Incentives to Restore Employment Act 2010	1 July 2014	'Foreign Account Tax Compliance Act' provisions known as FATCA – exchange of information on US persons with financial accounts, given effect through domestic law in Europe.
Directive 2014/107	1 January 2016	Common Reporting Standard 'DAC2' – exchange of information on financial accounts.
Directive 2018/822	1 January 2021	Mandatory Disclosure Rules 'DAC6' require reporting on transactions which meet certain hallmarks.
Regulation 2020/283	1 January 2024	Central Electronic System of Payments 'CESOP' requires reporting on cross-border payments originating in the EU.
Council Directive 2023/2226	1 January 2026	Crypto-Asset Reporting Framework 'DAC8' requires reporting on crypto-assets which includes many financial services use cases as well as the provisions on CRS2.0 which requires more information to be reported under the original DAC2.
Council Directive 2025/50	1 January 2030	Faster and Safer Tax Relief of Excess Withholding Taxes 'FASTER' which creates a withholding tax relief and reclaims regime across the EU, and relies on banks to administer withholding taxes on behalf of investors

Source: KPMG data

4.2 Information reporting

Banks provide information on millions of customers and billions of transactions each year to tax authorities, to be used by tax authorities to ensure that taxes are being paid by EU resident individuals and companies.

The OECD has estimated that more than €114 billion in additional revenues⁶⁹ have been collected globally as a result of CRS. The European Commission's evaluation of the Directive on Administrative Cooperation (DAC), covering 2018–2023, estimates total recurring DAC-related costs at €646 million per year, of which €604 million fall on private stakeholders - with DAC2 (CRS) alone accounting for €550 million. On the benefit side, the Commission quantifies roughly €6.8 billion per year in additional tax revenues, mainly driven by DAC1–DAC2 exchanges (€1.2 billion) and DAC4/Country by country reporting (€5.6 billion).

That Automatic Exchange of Information (AEOI) model has since formed the basis for reporting under MDR/DAC6 and expansions to include digital platforms, crypto-assets and payments as well as informing the very broad reporting requirements under FASTER. This has created a substantial administrative burden for market participants.

The result of these changes is that banks are effectively required to work on behalf of the tax authority when dealing with clients and counterparties.

These changes impose more than just a significant financial cost on the banking sector; they have cross-cutting impacts on how banks engage with their clients and counterparties.

Banks must enforce EU-wide rules at the point of customer on-boarding as well as monitoring various aspects of customer behaviour – changes of address and residency, qualification for reduced rates of withholding etc.

4.3 FASTER

FASTER is a major reform of withholding taxes across the EU, with the potential to create a harmonised environment for cross-border withholding taxes across all adopting Member States.

Importantly, the objectives underpinning the FASTER Directive align to the wider Draghi report, which reiterates that removing barriers to the Capital Markets Union (CMU) is critical in reducing barriers to investment in Europe. The EU Commission has recognised the need for FASTER to be harmonised across Member States in order to be effective.

FASTER's objective is to unlock considerable benefits for the EU economy, markets and investors.

Research indicates that simply removing the barriers to attaining the correct rate of withholding taxes could boost foreign portfolio investment by more than 7%.⁷⁰ The study, "*Withholding Taxes, Compliance Cost, and Foreign Portfolio Investment*" (Jacob and Todtenhaupt) highlights that existing withholding tax refund systems across many countries, particularly in the EU, are cumbersome and costly for investors, creating friction that discourages cross-border investment and undermines capital market efficiency.

A subsequent study found that removing the costs of the withholding tax reclaim process would increase average GDP in the EU by 0.10% and increase capital and wages would rise by 0.21% and 0.06%, respectively.⁷¹

Removing those barriers, as FASTER aims to do, would result in an increase in foreign portfolio investment even without any reduction in withholding tax rates more generally. However, this will require consistent implementation across the EU to ensure that domestic transposition of the Directive is harmonised.

4.4 Compliance costs

Information reporting and withholding regimes may unlock substantial benefits for tax authorities and economies, but the cost is borne substantially by the banking sector.

KPMG estimate that a large bank in the EU may spend upwards of €5 million a year to support information reporting regimes, collecting tax documentation and certifications from millions of customers each year. Smaller banks' costs may be lower, but higher as a proportion of total revenues.

The EU Commission report evaluating the effectiveness of the DAC estimated that DAC2 alone costs the industry €550 million per year to administer and raised €1.1 billion in additional taxes each year.

Tax authorities in Europe pay just €37 million to oversee all data collection under the DAC; most of the costs are passed onto the financial services industry in general and banks in particular.

This comes after the larger initial cost of implementing new systems and processes to comply with new reporting requirements which can often cost large banks €10 million plus.

The internal costs for large custodian banks who administer withholding taxes and who will implement FASTER will be significantly higher.

In other regulatory areas such as anti-money laundering, there has been a recognition of the changed role of banks in tackling illicit financing behaviours and adoption of public-private initiatives for intelligence sharing and tackling financial crime.⁷²

Whilst the public-private partnerships which exist in the financial crime space have not yet been extended to the tax sphere, it is important to note that banks do play a significant role in the administration of taxes and play a critical role in implementing government and tax policies, which carries a significant cost to the industry.

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The IMF notes that:

“In documenting the burden of new bank taxes across EU countries, we express the tax (on a per-year basis) as the percentage of bank RWA, which arithmetically corresponds to the percentage point impact on bank capital ratios. This enables us to interpret the value of the tax as the potential “prudential” impact of bank taxes, under the strict assumption that the tax funds could have been allocated to bank capital instead.”

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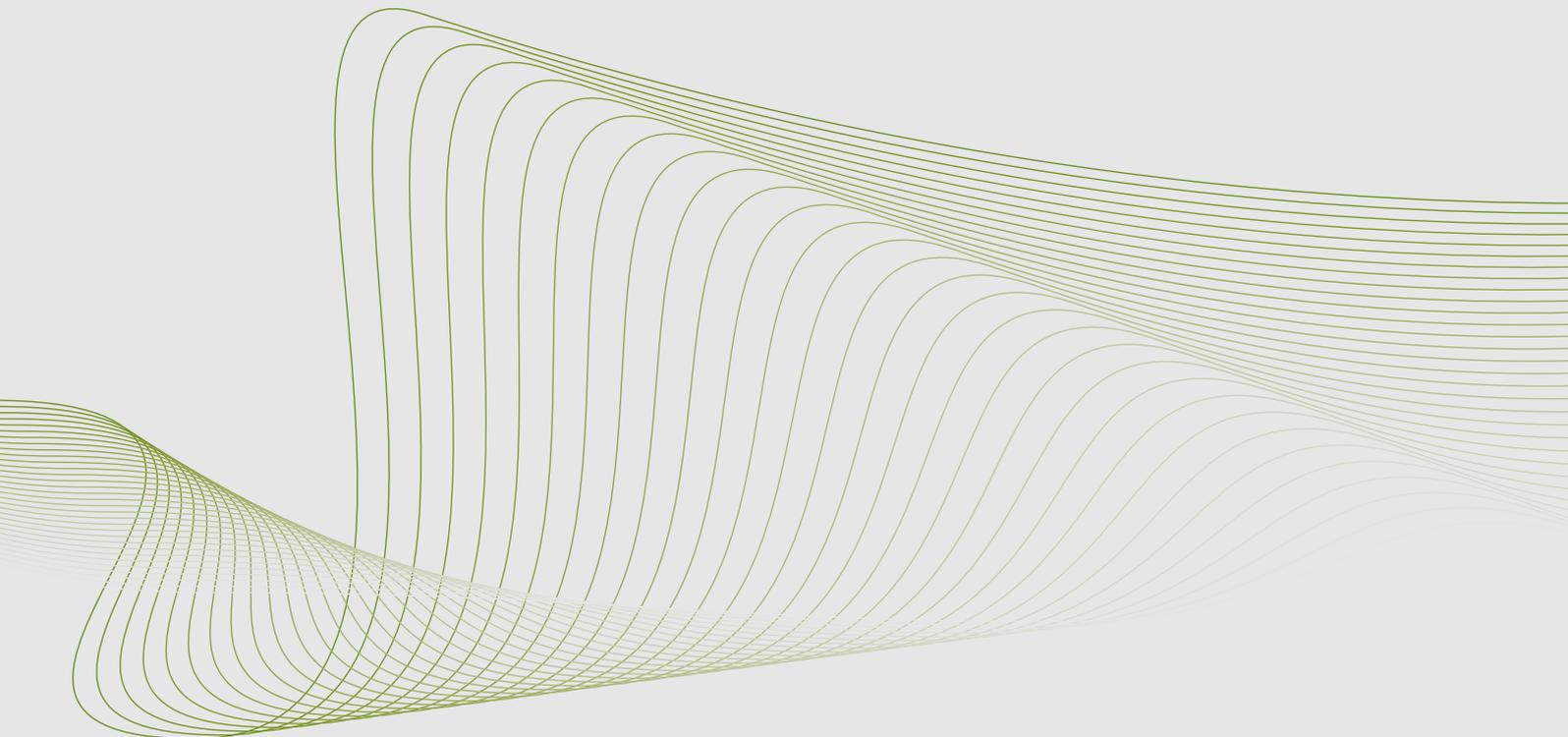
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