

Financial transaction tax - FTT to provide ease for EU and national budgets

By Eric van Puyvelde | Tuesday 27 September 2011

Ultimately, all financial transactions between financial institutions of which at least one is based in the EU will be subject to a tax harmonised at European level. This is what the European Commission is expected to propose in the coming days, after a final debate by commissioners, on 27 September in Strasbourg, mainly to set rates for the tax. The member states are deeply divided on the issue. For the Commission, it is a means of channelling resources to the EU and member state budgets during this crisis period. The proposal will be presented to the G20 at its November summit.

The following are the key features of the proposed financial transaction tax (FTT):

Objectives: To ensure that the financial sector contributes to the costs of the crisis and to tax it like other sectors; to discourage the use of excessively risky transactions and to complement regulatory measures aimed at preventing future crises; to avoid fragmentation of the internal market for financial services; to serve as own resources for the EU and thus to lighten member states' contributions to the Union's budget.

Scope: The proposal covers instruments that are negotiable on the capital market, money market instruments (apart from payment instruments), units or shares in undertakings for collective investments (which include UCITS and alternative investment funds) and derivatives agreements. The tax targets financial transactions carried out by financial institutions acting as a party to the transaction either for their own account or on behalf of other persons. Transactions with the European Central Bank and national central banks are not covered, however. According to the Commission, 85% of financial transactions would be taxed under the measure.

Use of FTT revenue: The tax revenue can be wholly or partially used as an own resource for the EU budget, replacing certain own resources paid out of national budgets at present. The Commission will present separate proposals on the use of the FTT as a source of revenue for the EU budget. A minimum rate would bring in revenue corresponding to what is needed by the EU budget and higher rates could be set by the states to provide revenue for their national budgets.

Rates: To be determined. However, in certain preliminary drafts, the Commission considers a rate of 0.1% for shares and bonds traded on secondary markets and 0.01% for all derivatives listed or traded on over-the-counter markets.

Preliminary debates have brought to light deep divisions on this subject. The UK, Sweden and the Netherlands are vehemently opposed to such a tax because of concerns that it may weaken their financial centres. France, Germany, Belgium and Spain are fervent proponents of the idea.

For MEP Pervenche Bérès (S&D, France), "it is internationally accepted that a rate of 0.05% is enough to discourage speculators. If the Commission remains below that level – there is talk of a rate of 0.02% – it would not reach the deterrent effect threshold and the tax would be useless for combating certain aspects of speculation.

The draft proposal is available at www.europolitics.info > Search = 300418