EUROPOLITICS

Financial transaction tax

Commission unveils new FTT proposal

By Tanguy Verhoosel | Thursday 14 February 2013

The European Commission unveiled, on 14 February, the content of its new proposal establishing a financial transaction tax (FTT), which it says should raise €31 billion a year for the 11 eurozone countries that plan to apply it.

Under the written procedure, the EU executive adopted a proposal for a directive implementing enhanced cooperation in the area of financial transaction tax by the 11 states that have decided to form an avant-garde: Germany, France, Italy, Spain, Belgium, Austria, Portugal, Greece, Slovakia, Slovenia and Estonia. It hopes to see them reach an agreement on the subject by 30 September at the latest so that the FTT can apply from 1 January 2014.

The new proposal is based in large measure on the Commission's earlier text of September 2011. The executive proposes a tax of 0.1% on transactions on shares, bonds, units of collective investment funds, money market instruments, repurchase agreements and securities lending agreements, and 0.01% on derivatives transactions. These are minimum rates: the states may decide to set higher rates at national level if they wish.

According to the Commission, revenues from the tax in the 'FTT zone' could add up to €31 billion per year. It suggests – very cautiously, because this is a divisive subject – that the 11 allocate a portion of these revenues to finance the EU budget. This EU own resource would enable them to reduce their direct financial contributions, based on gross national income, to the EU budget.

The scope of the draft directive is broad: it covers all financial institutions – including pension funds and holding companies, in particular – and all financial instruments. Transactions will be taxed under the 'residence principle', meaning the place of residence of the parties to the transaction. "As a last resort," the 'issuance principle', ie the place where the financial instruments are issued, may also apply to avoid relocations and abuse, which the Commission also plans to prevent through various clauses - a new element in the proposal.

"The real economy continues to be protected," explained Taxation Commissioner Algirdas Semeta.

"Day-to-day" activities that concern citizens and businesses (insurance contracts, loans, credit card transactions, deposits, cash currency transactions) are excluded from the legislation, as are transactions related to raising capital (issuance of shares and bonds, etc) and certain restructuring operations. Financial transactions related to monetary policy and the refinancing and management of government debt are also spared. Consequently, the FTT will not apply to central banks or certain national public bodies, the European Central Bank or the eurozone rescue funds (EFSF and ESM).

For the Commission, the aim is clearly to target transactions between financial institutions, which it considers under-taxed by around €18 billion per year, although they bear a large share of the responsibility for triggering the financial crisis and benefited from rescue operations financed by the public sector, ie by taxpayers.

That is precisely one of the objectives the Commission has set for the FTT: to ensure that the financial sector makes a substantial contribution to resolving the crisis and consolidating public finances. The executive hopes to create disincentives for financial institutions to engage in risky transactions that do not serve the interests of the real economy. Lastly, it wants to prevent a patchwork of national financial transaction tax initiatives, which would lead to fragmentation of the EU single market.

The directive is available at www.europolitics.info > Search = 330063

Background

28 September 2011: Commission proposal establishing a financial transaction tax at EU level

10 July 2012: After countless unproductive debates, the 27 finance ministers officially conclude that unanimous agreement on the proposal is impossible in the «foreseeable future»

September and October 2012: Eleven eurozone member states (France, Germany, Austria, Portugal, Belgium, Estonia, Greece, Spain, Italy, Slovenia and Slovakia) officially asked the Commission to prepare the groundwork for enhanced cooperation, based on its proposal of September 2011

23 October 2012: The Commission establishes that all legal conditions have been fulfilled for the Council and Parliament to green-light the launch of enhanced cooperation and presents a draft decision to this effect

November 2012: The Council officially requests Parliament's approval of the decision authorising enhanced cooperation

12 December 2012: MEPs approve the decision by an overwhelming majority (533 to 91 and 32 abstentions)

18 January 2013: Meeting of the Committee of Permanent Representatives (Coreper). The Irish EU Presidency notes that a qualified majority (required) exists in the Council in support of the proposal

22 January 2013: The 27 finance ministers approve the establishment of enhanced cooperation

14 February 2013: The Commission presents a new proposal for a directive. It will be debated by the 27 at technical and political level, but only the 11 states that have decided to apply the measure will have a voting right at the conclusion of the ministerial negotiations

30 September 2013: Cut-off date recommended by the Commission for transposition into national legislations of the compromise to be worked out by that date in the Council

1 January 2014: Implementation of the tax in the 'FTT zone'