

Taxation

Germany pushes shares tax as FTT falters

By Sarah Collins in Copenhagen | Monday 02 April 2012

The member states' finance ministers are considering the introduction of a UK-inspired tax on share transfers after plans to introduce a Europe-wide financial transaction tax (FTT) fell at the first hurdle. According to a paper presented by German Finance Minister Wolfgang Schäuble at a meeting in Copenhagen, on 30 March, ministers should consider a stamp duty as an "intermediate step" as "unanimous approval" for a Europe-wide FTT is not possible.

"This would not be the end of negotiations on the broader and more ambitious FTT sought by the Commission, which also covers bonds and derivatives, but the continuation of the negotiations should not impede the rapid implementation of a tax on shares," the German paper says. "While this first step is put in place, we have to work to extend taxation to other instruments so that we can achieve the comprehensive taxation of financial transactions as proposed by the Commission."

The Commission's proposal, issued last September, suggests taxing shares and bonds at 0.1% and derivatives at 0.01%. It has been shot down by the UK and Sweden, with Swedish Finance Minister Anders Borg telling reporters in Copenhagen, on 30 March, that it should be "taken off the agenda". France and Germany have been pushing the issue for over a year, with Schäuble under pressure from opposition Social Democrats, who insist on an FTT as their price for supporting the government in a vote on the EU's fiscal compact this May. The Netherlands, Luxembourg, Ireland and Malta have also poured cold water on the proposal despite a majority of eurozone countries - Germany, France, Italy, Spain, Belgium, Austria, Portugal, Finland and Greece - appealing to the Danish EU Presidency to fast-track an accord.

STAMP DUTY

Germany is now looking at a watered down transaction tax based the UK's 0.5% stamp duty on shares, but is also studying French tax of 0.1% on share purchases in large corporations, due to come into force this August. Danish Finance Minister Margrethe Vestager said, on 30 March, that ministers would adopt a "two-tier approach," continuing talks on the Commission proposal but looking into other ideas, including the stamp duty and so-called activities taxes on banks' profits and pay. However, she said it is unlikely the issue will move forward between now and June. *Europolitics* understands that a separate working group is being created to examine alternatives, led by Germany. A spokesperson for Taxation Commissioner Algirdas Semeta said that the EU executive was still "looking for ways to tax the financial sector that could be acceptable to all 27 member states". "There is nothing to indicate that our common base for discussion is no longer appropriate," the spokesperson said. "Even a so called 'stamp duty plus' approach, which Germany is now proposing, is in fact just a less ambitious sub-set of what we already have on the table".

REVENUES

There is also the thorny issue of where revenues from the tax are sent, with member states understood to have ditched talks on dedicating part of the revenues of the stamp duty - or the FTT - to the EU budget. The European Commission wants to hive off two-thirds of FTT revenues for the budget, lowering governments' own GNI-based contributions by an estimated 50%. "For us a red line would be obviously that this could not be an EU tax - there could be an EU legislative proposal to coordinate national taxes but there cannot be a EU tax for creating own means for the Commission," Borg said.

DERIVATIVES

A major bone of contention still to be resolved is how to treat derivatives in any future tax. Derivatives, contracts that derive their value from movements in share, bond or commodity prices, are politically sensitive given many companies, banks and even governments use them to hedge risks in the sectors to which they are exposed. The global derivatives market is worth in excess of US\$750 trillion (around €570 trillion), with over 90% of the total traded off-exchange or over-the-counter.