



Procedure file

Basic information		
INI - Own-initiative procedure	2010/2105(INI)	Procedure completed
Innovative financing at a global and European level		
Subject		
2.50.08 Financial services, financial reporting and auditing		
5.03 Global economy and globalisation		
6.30.02 Financial and technical cooperation and assistance		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		18/05/2010
		S&D PODIMATA Anni	
		Shadow rapporteur	
		PPE HÜBNER Danuta Maria	
	Committee for opinion	Rapporteur for opinion	Appointed
	DEVE Development (Associated committee)		22/06/2010
		ECR DEVA Nirj	
	ITRE Industry, Research and Energy		07/07/2010
		PPE MARINESCU Marian-Jean	
European Commission	Commission DG Research and Innovation	Commissioner	GEOGHEGAN-QUINN Máire

Key events			
08/07/2010	Committee referral announced in Parliament		
23/09/2010	Referral to associated committees announced in Parliament		
07/10/2010	Non-legislative basic document published	COM(2010)0549	Summary
01/02/2011	Vote in committee		Summary
10/02/2011	Committee report tabled for plenary	A7-0036/2011	
07/03/2011	Debate in Parliament		
08/03/2011	Results of vote in Parliament		
08/03/2011	Decision by Parliament	T7-0080/2011	Summary

08/03/2011	End of procedure in Parliament		
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Technical information	
Procedure reference	2010/2105(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 54
Other legal basis	Rules of Procedure EP 159
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/03071

Documentation gateway					
Non-legislative basic document		COM(2010)0549	07/10/2010	EC	Summary
Committee draft report		PE450.744	20/10/2010	EP	
Amendments tabled in committee		PE452.656	16/11/2010	EP	
Committee opinion	ITRE	PE445.791	02/12/2010	EP	
Committee opinion	DEVE	PE452.566	16/12/2010	EP	
Committee report tabled for plenary, single reading		A7-0036/2011	10/02/2011	EP	
Text adopted by Parliament, single reading		T7-0080/2011	08/03/2011	EP	Summary
Commission response to text adopted in plenary		SP(2011)5426/2	12/09/2011	EC	

Innovative financing at a global and European level

PURPOSE: open a debate on the taxation of the financial sector.

BACKGROUND: the recent financial crisis stressed the need for a more robust financial system, given the cost of financial instability for the real economy. In addition, there are several key challenges in the areas of development, resource efficiency and climate change with significant budgetary implications. Against this background, could supplementary taxes on the financial sector be a potential revenue-generating solution?

The European Council concluded on 17 June 2010, in preparation for the G-20 Toronto Summit, that the EU should lead efforts to set a global approach for introducing systems for levies and taxes on financial institutions with a view to maintaining a world-wide level playing field and will strongly defend this position with its G-20 partners. The introduction of a global financial transaction tax should be explored and developed further in that context.

The European Parliament has also been debating issues related to the financial sector and taxation. In particular its [Resolution](#) of 10 March 2010 asks the Commission and Council to look at how a financial transaction tax could be used to finance development cooperation, help developing countries to combat climate change and contribute to the EU budget. Some Member States have already taken measures with regard to bank taxation.

Such debates are not limited to the European Union. These are indeed issues reflecting the global and systemic nature of the financial crisis and its consequences. There have been discussions in the G-20 on new forms of taxation. However, there is no global consensus on additional tax instruments.

Regardless of the tax instrument considered, is there a rationale for adapting the tax system to make the financial sector contribute in a fair and substantial way to public budgets? The Commission sees three main arguments for this.

(1) to complement the extensive financial sector reforms underway, taxes could contribute to enhancing the efficiency and stability of financial markets and reducing their volatility as well as the harmful effects of excessive risk-taking;

(2) the financial sector is seen to bear an important responsibility for the occurrence and scale of the crisis and its negative effects on government debt levels worldwide. Additional taxes could also be justified by the fact that some governments provided substantial support to the sector during the crisis and it should hence make a fair contribution in return;

(3) most financial services are exempt from value added taxation in the EU. The reason is that the major part of financial services' income is margin based and therefore not easily taxable under current VAT.

This Communication contributes to the debate by covering two instruments, a Financial Transactions Tax (FTT) and a Financial Activities Tax (FAT).

CONTENT: the Commission communication shows that innovative financing mechanisms in general and new financial sector taxes in particular could be an important element in responding to the current global and European challenges.

Financial Transactions Tax (FTT): the FTT is designed to tax the value of single transactions. For a wide coverage, it should be applied to a broad range of financial instruments (i.e. equities, bonds, currencies and derivatives), even if some current proposals envisage limiting the scope to a subset (e.g. currency transaction levy).

Globally, estimated tax revenues would have been around EUR 60 billion for 2006 for stocks and bonds transactions assuming a tax rate of 0.1 %. Some studies find ten times this amount if derivatives are included. However, there are technical problems for derivatives such as determining tax bases as well as doubts about the accuracy of revenue estimates. Past experiences have shown a substantial gap between expected and realised revenues. There are also open issues with currency transactions if levied only nationally.

The revenue generated would be largely collected in a limited number of countries where trading activities are concentrated. This uneven distribution would be even greater when derivatives are included. On the one hand, this could make an agreement on a tax more difficult given that all countries would have to implement the tax while only a few gain the revenue. On the other hand, one can argue that investors from all over the world use the central market places. Therefore, all users contribute to the tax revenue, giving it a global dimension.

Assessment: the Commission considers that globally, an FTT could be an appropriate option as a revenue raiser in particular to provide financing for global policy goals. For it to work effectively and fairly, participating countries should try to come to an agreement on global financing tools that can be acceptable to all. The Commission is committed to continuing to work with its international partners, in particular in the G20, to reach such an agreement.

A financial transaction tax could be considered at the EU level only. However, it must be borne in mind that the financial industry is a global and interconnected one. Financial activities are concentrated in a small number of financial centres both inside and outside the EU which compete on the world stage. Finance is also a complex and evolving area and the main players have a developed capacity to seek out new and innovative ways of doing business and of structuring financial transactions.

Financial Activities Tax (FAT): another potential instrument to improve taxation of the financial sector and reduce potential negative externalities is the Financial Activities Tax (FAT) as proposed by the IMF. In its most extensive form (addition-method FAT), the FAT falls on total profit and wages. It can also be designed to specifically target economic rents and/or risk. In contrast to an FTT, whereby each financial market participant is taxed according to his transactions, the FAT taxes corporations. The focus here is on the addition-method FAT.

For the 22 developed economies considered in the IMF report to the G-20, a 5 % rate of the addition-method FAT would create revenue corresponding to the average of 0.28 % of GDP. Using the country-level estimates for the share in GDP to calculate absolute figures, this would translate into total revenue for the 22 countries of roughly EUR 75 billion for the addition-method FAT. For the EU-27, the addition-method FAT could raise up to EUR 25 billion.

Assessment: at this stage the Commission considers that there is greater potential for a Financial Activities Tax at EU-level. This option could deal with the current VAT exemption of the financial sector and raise substantial revenues. Given the innovative nature of this tax there is a need for further technical work on how it might be implemented. The addition-method FAT can be interpreted as a tax on a proxy for total value added generated by a financial sector company. However, if designed as a complement to the current VAT, a number of technical issues must be resolved in order to align both taxes. The Commission believes that the FAT option is worth exploring in the EU context. This should include an assessment of its possible competitive implications and whether these are offset by possible disincentives for companies to relocate.

In the light of the conclusions above, the Commission will therefore without delay launch a comprehensive impact assessment, which will further examine each of these options, in order to be in a position to make appropriate proposals on policy actions by summer 2011.

Innovative financing at a global and European level

The Committee on Economic and Monetary Affairs adopted the own-initiative report by Anni PODIMATA (S&D, EL) on innovative financing at global and European level in response to the Commission staff working document on innovative financing at a global and European level and the Commission Communication on the taxation of the financial sector.

Members take note of the work carried out so far by the Commission to respond to the call made by Parliament in its [resolution of March 2010](#) for a feasibility study on financial transaction taxes at global and EU level. They call for the result of a comprehensive impact assessment and possible concrete proposals to be made public by summer 2011, as announced in the Commission's communication on Taxation of the Financial Sector. A balanced and thorough feasibility study on an EU Financial Transaction Tax (FTT) should be the basis on which the procedure for introducing such a tax is implemented. Members emphasise that an increase in the rates of existing taxation tools and further cuts in public expenditure can be neither a sufficient nor a sustainable solution to address the main challenges ahead. The focus should be on removing the remaining barriers in the internal market, with studies showing that EUR 200 to 300 billion could be saved annually if all barriers to the four freedoms were removed.

Members go on to state that one of the main advantages of innovative financing tools is that they can bring a double dividend, as they can at the same time contribute to the achievement of important policy goals, such as financial market stability and transparency, and offer significant revenue potential; stresses, in this context, that the effects of these tools on the negative externalities produced by the financial sector should also be taken into account;

Taxation of the financial sector: the committee welcomes the Commission's recognition that the financial sector is under-taxed, in particular because no VAT is levied on most financial services, and it calls for innovative financing measures to raise more from this sector and contribute to shifting the burden of taxation away from working people. The introduction of an FTT could help to tackle the highly damaging trading patterns in financial markets, such as some short-term and automated HFT transactions, and curb speculation. Members favour the

introduction of a tax on financial transactions, which would improve the functioning of the market by reducing speculation and help to finance global public goods and reduce public deficits. The introduction of a tax on financial transactions ought to be as broadly based as possible. The report calls on the Commission swiftly to produce a feasibility study, taking into account the need for a global level playing field, and to come forward with concrete legislative proposals.

The current revenue estimates for a low-rate FTT, which could yield nearly EUR 200 billion per year at EU level and \$650 billion at global level, could constitute a substantial contribution by the financial sector to the cost of the crisis and to public finance sustainability. Members call on the G20 leaders to speed up the negotiations for an agreement on the minimum common elements of a global FTT and to provide guidance on the desired future of these various kinds of taxation.

The report goes on to state that the flow of merely speculative transactions to other jurisdictions would have few detrimental effects, but could also have the potential to contribute to increased market efficiency. An FTT should have the broadest base possible so as to guarantee a level playing field in the financial markets and not drive transactions to less transparent vehicles. Members insist on determining who will ultimately be paying the tax, as the burden usually falls on the consumer, who in this case would be retail investors and individuals, and they stress the need for comprehensive rules on exemptions and thresholds, in order to prevent this.

Comparing other financing tools, the committee states that bank levies, a Financial Activities Tax (FAT) and an FTT each serve different economic objectives and have different revenue-raising potential. Since they are based on balance-sheet positions, bank levies cannot take on the role of curbing financial speculation and further regulating shadow banking; in that connection. Members also stress that an FAT is mainly a revenue-oriented tax tool that targets the financial sector, making it possible to tax economic rents and profits from excessive risk-taking, and as such could provide a solution to the current VAT exemption of the financial sector.

The question regarding the purpose for which the revenues raised by an FTT should be used needs to be resolved in order to give taxpayers a proper picture of the rationale behind additional financial sector taxation. Members feel that, owing to its global nature, the revenue raised by a global FTT should be used to provide financing for global policy goals, such as development and poverty reduction in developing countries and the fight against climate change. In order to safeguard the European added value of the innovative financing tools a part of those revenues could be allocated to finance EU projects and policies, and Members call for a broad debate on the choices available.

Eurobonds: the committee calls on the European Council and the Commission to provide an immediate response to Parliament's call in its [resolution on the permanent crisis mechanism](#) for the necessary political signal to be given for a Commission investigation into a future system of Eurobonds. It supports the idea of issuing common European project bonds to finance Europe's significant infrastructure needs and structural projects.

Carbon tax: Members support a strengthening of the Emissions Trading Scheme (ETS) and a comprehensive revision of the Energy Taxation Directive to make CO₂ emissions and energy content basic criteria for the taxation of energy products. A carbon tax and the revision of the Directive should set the minimum mandatory requirements for all Member States, leaving it to up to each Member State to go further if it sees fit. However, the scope for a global agreement at G20 level or within the WTO should be fully explored before such a tax is imposed on foreign imports into the EU in order to ensure that this border taxation adjustment tool does not give rise to a shortage of raw materials, on the one hand, and retaliatory measures by third countries against EU exports, on the other.

Financing for development: the report calls for a re-affirmation by the Member States of their pledge to earmark 0.7% of their gross national income GNI to official development assistance, deploring the fact that only Sweden, Luxembourg, Denmark and the Netherlands reached this goal in 2008. Innovative financing for development can complement traditional development aid mechanisms and should be additional to the UN goal of 0.7% of GDP devoted to development cooperation. Members stress at the same time, the need for developing countries to step up their own efforts in the area of taxation, mainly as regards tax collection and the fight against tax evasion.

Innovative financing at a global and European level

The European Parliament adopted by 529 votes to 127, with 18 abstentions, a resolution on innovative financing at global and European level in response to the Commission staff working document on innovative financing at a global and European level and the Commission Communication on the taxation of the financial sector. Members take note of the work carried out so far by the Commission to respond to the call made by Parliament in its [resolution of March 2010](#) for a feasibility study on financial transaction taxes at global and EU level. They call for the result of a comprehensive impact assessment and possible concrete proposals to be made public by summer 2011, as announced in the Commission's communication on Taxation of the Financial Sector. A balanced and thorough feasibility study on an EU Financial Transaction Tax (FTT) should be the basis on which the procedure for introducing such a tax is implemented. Members emphasise that an increase in the rates of existing taxation tools and further cuts in public expenditure can be neither a sufficient nor a sustainable solution to address the main challenges ahead. The focus should be on removing the remaining barriers in the internal market, with studies showing that EUR 200 to 300 billion could be saved annually if all barriers to the four freedoms were removed.

Members go on to state that one of the main advantages of innovative financing tools is that they can bring a double dividend, as they can at the same time contribute to the achievement of important policy goals, such as financial market stability and transparency, and offer significant revenue potential.

(1) **Taxation of the financial sector:** Parliament welcomes the Commission's recognition that the financial sector is under-taxed, in particular because no VAT is levied on most financial services, and it calls for innovative financing measures to raise more from this sector and contribute to shifting the burden of taxation away from working people. The introduction of an FTT could help to tackle the highly damaging trading patterns in financial markets, such as some short-term and automated HFT transactions, and curb speculation. Members favour the introduction of a tax on financial transactions, which would improve the functioning of the market by reducing speculation and help to finance global public goods and reduce public deficits. The introduction of a tax on financial transactions ought to be as broadly based as possible and that the EU should promote the introduction of an FTT at global level, failing which, the EU should implement an FTT at European level as a first step. The resolution calls on the Commission swiftly to produce a feasibility study, taking into account the need for a global level playing field, and to come forward with concrete legislative proposals.

The current revenue estimates for a low-rate FTT, which could yield nearly EUR 200 billion per year at EU level and \$650 billion at global level, could constitute a substantial contribution by the financial sector to the cost of the crisis and to public finance sustainability. Members call on the G20 leaders to speed up the negotiations for an agreement on the minimum common elements of a global FTT and to provide guidance on

the desired future of these various kinds of taxation.

The resolution goes on to state that the flow of merely speculative transactions to other jurisdictions would have few detrimental effects, but could also have the potential to contribute to increased market efficiency. An FTT should have the broadest base possible so as to guarantee a level playing field in the financial markets and not drive transactions to less transparent vehicles. Members insist on determining who will ultimately be paying the tax, as the burden usually falls on the consumer, who in this case would be retail investors and individuals, and they stress the need for comprehensive rules on exemptions and thresholds, in order to prevent this.

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(2) Eurobonds: Parliament notes that Eurobonds are increasingly referred to as a common debt management instrument. It calls on the European Council and the Commission to provide an immediate response to call Parliament made in its [resolution on the permanent crisis mechanism](#) for the necessary political signal to be given for a Commission investigation into a future system of Eurobonds. Members support the idea of issuing common European project bonds to finance Europe's significant infrastructure needs and structural projects in the framework of the EU 2020 agenda, anticipated new EU strategies, such as the new Strategy on Energy Infrastructure Development, and other large-scale projects. EU project bonds would secure the investment required and create sufficient confidence to enable major investment projects to attract the support they need and would thus become an important mechanism for maximum leverage of public support.

(3) Carbon tax: Members support a strengthening of the Emissions Trading Scheme (ETS) and a comprehensive revision of the Energy Taxation Directive to make CO₂ emissions and energy content basic criteria for the taxation of energy products. A carbon tax and the revision of the Directive should set the minimum mandatory requirements for all Member States, leaving it to up to each Member State to go further if it sees fit. However, the scope for a global agreement at G20 level or within the WTO should be fully explored before such a tax is imposed on foreign imports into the EU in order to ensure that this border taxation adjustment tool does not give rise to a shortage of raw materials, on the one hand, and retaliatory measures by third countries against EU exports, on the other.

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