

GLOBAL PROGRESSIVE FORUM

ECON discussions in the EP on the EC proposal on the FTT

January 9 2012

The Proposal by the European Commission for a financial transaction tax (FTT) was discussed yesterday in the European parliament, in the ECON Committee (Economic and Monetary Affairs).

State of Play in the EP

Mrs. [PODIMATA Anni](#) (S&D, Greece) is the rapporteur for this report on a "Common system of financial transaction tax (amend. Directive 2008/7/EC)". Please note that this is a consultative procedure (procedure file 2011/0261(CNS)).

MEP will be responsible for the report on the Common system of financial transaction tax (amend. Directive 2008/7/EC), in the Committee Responsible - ECON, with the following agenda (due to changes)

- vote schedules in committee : 24 april 2012
- indicative plenary sitting debate : 12.06.2012

The following Committees will provide an opinion: Development (DEVE), Budgets (BUDG) - rapporteurs [DEHAENE Jean-Luc](#) (EPP) and [JENSEN Anne E.](#) (Liberal), Internal Market and Consumer Protection, (IMCO) and Legal Affairs (JURI).

Procedure File:

[http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2011/0261\(CNS\)](http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2011/0261(CNS))

Discussions

Anni Podimata MEP (S&D, Greece) stressed the importance of the FTT Proposal, especially in the context of the fiscal compact.

Implementation level and geographical scope: This tax should be established at global level, and we push the commission to do more to achieve this now. In the meantime, the FTT should be implemented at EU27 level. Tax measures tend to be more and more unilateral and less coordinated. One of the most important issues, to avoid the breaking up of the internal market, remains in the supervision and coordination of fiscal policy around Europe. The FTT is an important component of the new framework we put together. We speak about budget coordination but we need a second leg. The 27 MS should all be on board and there should be this objective. But we should not be held hostage if one country does not go along with this. So, in the first place, it might only be implemented at euro zone level.

First, the financial institutions should contribute to pay for the crisis. It's not only production and work force that need to be supportive in this time of crisis, but also the financial services. Second, it is important to create incentives, to develop new regulations of the financial sector.

This instrument complements what already exists, to allow transactions that lead to instability, to be deterred.

The EC proposal tackles possible failures in implementation in the member states, avoids the tax burdens on small investors and small companies, and ensures that financial institutions pay these taxes.

Dangers of Tax evasion and tax fraud: In the scope, all transactions with financial products (bonds, shares, etc.) are to be taxed when one partner is present in the EU or based in the EU. That's important to avoid tax evasion. It's not a question of where the transaction tax takes place but who is involved, and this is clever to avoid relocation. With the new registration requirements, it will be difficult or impossible for a financial institute or any other party to a transaction to evade this tax, even if the transactions take place outside the EU. To evade the tax, they would need to move their headquarters outside the EU or close their subsidiary.

But there is also an important gap here, something missing, with regards the resident issue. For example, the transactions which take place in Europe but concerning products outside the EU will not be covered. Deals that take place in the EU but dealing with foreign parties (Europeans bonds but traded by parties not based in the EU) are going to be taxed in a trading place outside the EU. One solution would be to have a proper combination of the resident principle of the EC AND the issue principle (country of issuing). There is a study by a specialist on how this issue should be resolved.

The EC proposal tackles the right exemptions: for primary markets and currency trade, but also loans especially household loans, but also every day financial activities such as payment transactions and transactions by the ECB. So the FTT will not affect these bodies. Financial services for investments are exempted. Transactions by consumers are also excluded.

The commission says we should have a very low rate. The EC proposal is feasible and realistic. This proposal favours investments in the real economy. There is no real danger or relocation of trade and no loss of competitiveness for the European financial sector.

But there is one difficult element here. We are talking about a very low rate of transaction. The issue is the **frequency of transaction**. Each transaction is taxed depending on their frequency.

Sirpa PIETIKÄINEN (Finland, Shadow rapporteur of the EPP-ED) stressed that the European financial markets are far too important to be left aside. Implementation is feasible and legal base is there. On tax evasion, the devil is often in the details. We need to look closer at the third party issue. **Residence based and market based approach should not be mixed.** There is always a risk that costs are passed on to consumers, but this is the case for any form of taxation so the argument should be left aside. We need to take into account the new MiFID regulations to avoid distortions.

Wolf KLINZ (Germany, Shadow rapporteur of the Liberal-Democrats) first thought the Tobin Tax was bad idea. But he changed his mind, first because and also because the Financial sector is acting in the same way despite the crisis, through the resident principle, has managed to circumvent the risk of tax evasion. The crisis has led to further division of the EC, and **we need to find a path to get all the EU 27 Member States on board** and we should have the euro zone at the minimum, and if Sarkozy goes on with a unilateral FTT, this will bring chaos to the EU integration. Those who carry out financial transaction, that have nothing to do with the real economy, which have no productive contribution to make, should be taxed. If this steering function is achieved, we will have achieved something good for the real economy. The risk for the costs to be passed on to the consumers is inevitable but should not prevent us from moving forward on that subject.

Ivo STREJČEK (Czech Republic, Shadow rapporteur of the European Conservatives and Reformists Group) put into question the responsibility of banks in the financial crisis, reproached the proposal for causing capital flights, and was afraid of the EC gaining its own resources.

Pascal Canfin (France, Shadow rapporteur of the Greens) would like to stick to the residence principle. But we need to discuss another principle: whether the transactions involve European products (transactions related to derivatives linked to the euro and to EU Company). It is unlikely that the UK get a U-turn on the FTT issue so we need to decide whether we do it at a reduced EU level. If we want to get a political agreement, we need to look at the technical issue and how feasible it is, while complying with the single market rules. If France goes on with the implementation of a financial transaction tax, he will only come back to the shares tax he had removed in 2008, not a broad-based financial transaction tax including bonds and derivatives).

Jürgen Klute (Germany, Confederal Group of the European United Left) stressed that the financial sector has played a major role in causing the crisis and the financial sector should shrink a little bit and the FTT will contribute to it. The evasion of the tax: some MEPs said the euro zone is big enough and the danger is small, but there is Switzerland nearby. The FTT will allow some redistribution from the top to the bottom - the FTT is an important part of the whole review of financial regulation across Europe.

Vicky FORD (UK, ECR) expressed her concerns on the negative effect of the FTT on growth and on her conservative activities on the financial market as regards her pension savings. She advocated "tax incentives" rather than "tax incentives" and was strongly against an FTT, in the UK and the rest of Europe.

Carl HAGLUND (Finland, Lib dem) would like high frequency trading to be regulated by other instruments than the FTT and was concerned but the consequences of the implementation of the FTT in Sweden but not Finland, for example. He also raised the issue of the use of this, and said an impact assessment stressed we might lose money.

Liem HOANG NGOC (France, S&D) stressed that it will tackle speculation, which should also be tackled in the US. He questioned the existence of two rates - one for derivatives be taxed less than shares and bonds, while the latter are more useful to tax the economy. The Tobin Tax was originally aimed at avoiding speculation on certain currencies, and we should use this tool to prevent also speculation on Euro. We will need to tackle this issue one day.

Derk Jan EPPINK (Belgium, ECR) strongly criticized Sarkozy for creating taxes and was afraid of the FTT undermining the competitiveness of the EU committee.

Marta ANDREASEN (UK, EFDP) reproached the budget committee and the EC for having managed the EU budget inefficiently - do we want more money for the Commission to use more money: who will control the EC and that the costs are not passed on to the Consumers.

Jean-Paul GAUZES (France, EPP) think it is not realistic to get the FTT implemented at global level - we need it at least at EU or Eurozone level. As regards Sarkozy, he said the proposal took place in an electoral campaign and the opposition has overated.

Olle SCHMIDT (Sweden, Lib Dem) is afraid that Helsinki is in and Stockholm is out - so it will lead to further division in Europe in his mind.

Marianne THYSSEN (Belgium, EPP-ED) supports the FTT - and many of her Group are also supporters of the tax now. She stressed the tax will affect the highly risky and speculative behaviour to restrict this sector slightly. The impact of this tax is clearly in favour of the consumer. She asked some questions such as pension funds exemptions.

Sven Giegold (Germany, Greens) asked Vicky Ford why she is so reluctant to a financial transaction tax at EU level while there is already a stamp duty at UK level. It's not the end of the world if Sarkozy proposes an FTT - many countries already have some kind of FTT / Stamp Duty. He proposed a sort of fee if certain business is shifted and there are precise proposals. We need to design it in a way so that other parties outside the EU can join, to make it global at the end. The work of the UN working group on innovative financing is going on.

Danuta HÜBNER (Poland, EPP-ED) proposed to rather remove VAT exemption on this sector or balance sheet tax. She was very sceptical about the FTT.

Werner LANGEN (Germany, EPP-ED) stressed the need for the financial sector to shrink. He also underlined the importance of transparency, and the redistribution aspects.

Udo Bullmann (Germany, S&D) stressed that more and more countries are in favour in the Council and the EP must maintain its position.

Another MEP asked the commission if the FTT qualifies for own resources if only implemented at EU Level.

European Commission (Wolf Diemer): Thanks for supporting the residence principle - the objective is to also encompass third country financial actors that have activities. We could complete this approach by taking also on board the issuances principle, whether or not they are traded by European financial institutions - this is something the Commission is looking at. The commission proposal aims at the 27 member states. As long as the FTT revenue is used, even just partly, in the EU Budget, then it needs to be agreed by 27 member states. If enhanced cooperation is used, it requires at least 1/3rd of member states. Individual financial transaction taxes already exist in 10 member states so sub-configurations look likely.

The impact assessment does not replace the political position; it gives information for the commission to decide to bring forward the proposal or not. There are some economic disadvantages that have been highlighted. But the revenue use issue has not been tackled, but if used cleverly, the revenue will generate economic growth, compared to which, economic disadvantages are negligible. The FTT will have impact on investment strategies and behaviour of pension funds, but the overall impact will not be negative form most pension funds. Those pension funds who only base their strategy on highly frequency trading will have negative effect, but this is one of the objectives of the proposal: less frequency trading and more stability of the internal market.

- Why two rates? Because derivatives and securities have different tax bases.
- Spot currency transactions taxation: there is no legal basis for taxing them.
- This proposal can survive even if it is not own resource (it has its own legal basis)

This is only an overview of the discussions, not quotes or official statements. For confirmation of the individual views expressed by the MEPs and official quotes and positions, please contact the MEPs directly or check the EP website.