



MEPs push forward plans for financial transaction tax

The current economic situation, austerity measures and bank bail-outs have hit budgets, and in these hard times, there's a need to find new measures of financing at EU level. A non-legislative report on "Innovative financing" by Greek Socialist Anni Podimata backed by Parliament's Economic and Monetary Affairs Committee Tuesday (1 February) suggests an EU financial transaction tax (FTT) could help finance budgets, reduce public deficits and fight speculation.

In the aftermath of the financial crisis, the idea of taxing banks has been widespread, though not consensual. While many countries have expressed a wish and need to tax the financial sector, suggestions range in scope and type of tax.

After the vote, Ms Podimata said "now is the right moment for the EU, which has the largest financial market in the world, to give a convincing reply to EU citizens by achieving a clear position in favour of the introduction of a tax on financial transactions."

Small tax for a big impact

The Podimata report suggests a Financial Transaction Tax:

- of between 0.01% and 0.05%, to limit the risk of transaction flows
- that aims to cut speculation
- has a broad base, including every type of transaction, in order to avoid flows towards less regulated parts of the financial sector
- Has clearly defined exemptions and thresholds, taking into account the needs of the retail sector and small investors and individuals.

The report suggests revenue potential of a low-rate FTT with its large tax base, of nearly €200 billion a year at EU level and \$650 billion at global level.

According to Ms Podimata, "The main advantage 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 climate change policy goals, and offer significant revenue potential."

Critics say FTT will affect competitiveness

The European Commission supports further development of an FTT at a global level, but the Podimata report suggests starting implementation in Europe: "Introduction of a tax on financial transactions ought to be as broadly based as possible or, failing that, the financial transaction tax should be introduced as a first step at EU level."

Critics argue that introducing the tax only in the EU will negatively affect competitiveness. Swedish Liberal Olle Schmidt said, "I believe that a large part of the European financial sector would simply move to other jurisdictions, and probably to less transparent jurisdictions than the European one. I don't think that would serve European interests." Members have called on the Commission to do an impact assessment on the FTT.

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The tax would require approval from all member states. "It will probably be very complicated to reach consensus. Many different ideas on how the revenues would be spent exist within EU," Mr Schmidt said.

However, the rapporteur is optimistic. "It is up to the Council and Member States to follow and give a convincing reply to Parliament's call for a tax on financial transactions. Therefore we anticipate that the European Council and the Economic Affairs Council will show the adequate will and commitment to move forward."

The report will be voted in plenary in March.