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Regulation Flash

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Economic Analysis

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FTT: political agreement but uncertainty still remains

During last ECOFIN held on May 06th, 10 out of the 11 Member States participating in the enhanced cooperation procedure confirmed their commitment to adopt a common framework to introduce a financial transaction tax (FTT), but only few details have been defined.

- **Political agreement between 10 of the 11 Member States involved.** France, Germany, Austria, Belgium, Estonia, Greece, Italy, Portugal, Slovakia and Spain confirmed that they will adopt a FTT under enhanced cooperation. Slovenia has not signed the declaration - not because it disagrees with the initiative, but simply because there is currently no government in place.
- **Purposes of the initiative:** (i) harmonisation of the national frameworks; (ii) ensuring the contribution of the financial sector to tax revenue, and (iii) creating a disincentive to transactions that do not enhance the efficiency of financial markets.
- Progressive implementation from 2016.
  - Up to now, participating countries have 0only agreed on a ***progressive implementation*** of the FTT, focusing initially on the taxation of ***shares and some derivatives***.
  - Later on, the FTT would be applied on ***a wider base of derivatives, step by step***.
  - ***Discretion*** would be provided to national authorities to adopt a wider tax base in order to preserve their existing national framework.
- Calendar.
  - The first steps are expected to be implemented at the latest on ***1 January 2016***.
  - The legislation is expected to be ***finalised by year-end***.
- Opposition of uninvolved Member States: UK and Sweden.
  - ***UK*** is concerned about the damaging impact of the FTT, not only on participating countries but also on uninvolved Member States as they are significant trading counterparties of involved countries. UK presented an action for annulment of the authorisation of enhanced cooperation before the Court of Justice that was dismissed by the Court on 30 April 2014.
  - ***The Swedish position*** is getting closer to that of the UK.
  - ***The Netherlands*** deplores the lack of detail in the declaration.

- Assessment: enhanced cooperation is continuing but uncertainty still remains.
  - ***The purpose of the agreement is only political.*** It was not expected that the involved Member States would agree on the details of the enhanced cooperation during this ECOFIN. The declaration was necessary before the end of the current EU parliament, in order to ensure that the enhanced cooperation procedure would be pursued.
  - ***Negotiations are still hard; uncertainty still remains on key details.*** The lack of definition in the declaration confirms the difficulties being met by the Involved Member States in agreeing on the key elements of the FTT. In that vein, the principle of taxation is still not clear. Big Member States prefer the issuance principle while the smaller ones support the residence principle. Other key issues that will be subject to tough negotiations include: (i) scope of derivatives subject to the tax both initially and progressively; and (ii) the tax rate.
  - ***Anyway, this initiative is being driven for political reasons and is hard to justify from an economic perspective.*** The efficiency of any FTT in achieving its objectives is questionable. This initiative would be disruptive for the real economy, and would alter the competitive equilibrium, with significant drawbacks that would more than offset the benefits arising from its revenue. The G-20 leaders themselves rejected this initiative.

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