Bundesministerium der Finanzen

Bank Taxes and a Financial Transaction Tax

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Outline

- Taxing banks: Where do we stand?
- The Restructuring Fund (bank levy) in Germany
- Further contributions from the financial sector
- Why not choose a financial activity tax?
- Why choose a financial transaction tax?
- FTT: State of play
- FTT: Example for new ways of taxation?

Taxing banks: Where do we stand?

- Restructuring Fund Act enacted on 31 Dec 2010:
  - ⇨ Guarantees
  - ⇨ Recapitaliziation
  - ⇨ Bridge Banks

- Accrues funds for a potential future banking crisis

The Restructuring Fund (bank levy) in Germany

- Funded by banks based in Germany
- Target funding amount: €70bn
- Amount of bank levy depends on
  - ⇨ size of bank and
  - ⇨ degree of interconnectedness within the financial system
- Annual contribution; special purpose contribution may apply
- Revenue in 2011 (first year): approx. €600m; revenue lower than forecast on account of the sovereign debt crisis

Further contributions from the financial sector

- Aggravation of the financial crisis in 2010:
  - ⇨ Major commitments by national governments to stabilize the financial sector since 2008
  - ⇨ Banking crisis followed by sovereign debt crisis
- Further contributions from the financial sector needed for budget consolidation
- Under-taxation of the sector (VAT exemption)
- Since July 2010, Germany and France have been supporting a financial transaction tax at international level
- Discussions of financial activity tax vs. financial transaction tax

Why not choose a financial activity tax?

- Smaller tax base → higher tax rates to generate revenue
- Constitutional law in Germany does not allow specific taxation of one sector
- FAT as a proxy for VAT gap (favored by IMF):
  - ⇨ Why choose an instrument that mainly taxes end consumers?
  - ⇨ FAT taxes the country of origin, not the country of destination

Why not choose a financial activity tax?

- Problems in defining elements of an FAT (profits and remuneration above certain thresholds, excess profits)
- Cascading effects
- FAT is likely to have the effect of a CIT surcharge:
  ⇨ Tax competition
- EU impact assessment:
  ⇨ FTT is likely to generate higher revenue

Why choose a financial transaction tax?

- Taxing financial transactions:
  - ⇨ Taxing capital no longer available for real economy purposes (credit and loans to enterprises)
  - ⇨ Following the logic of financial markets: taxing turnover not profit
- Broad tax base → low tax rates
  - ⇨ Growth-friendly
  - ⇨ Minimizes evasive reactions
- Enables taxation of all financial instruments (not only shares but also derivatives)

Why choose a financial transaction tax?

- Transactions with very small marginal profits will lose attraction due to steering effects:
  - ⇨ High-frequency trade
  - ⇨ Economic purpose?
  - ⇨ Incentives to feed the capital back into the real economy?
- Evasive reactions have to be minimized through the design of the tax
  - ⇨ Low tax rates
  - ⇨ Broad tax base
  - ⇨ Regulated markets and OTC

Why choose a financial transaction tax?

- Indications that incidence will not mainly be passed on to end consumers:
  - ⇨ Professional trading has the highest share in all transactions
  - ⇨ How would FTT costs be passed on to end consumers? Account maintenance fees? Loans?
  - ⇨ FTT liabilities of banks vary due to different business models
  - ⇨ Competition between financial institutions would partly prevent the incidence of the tax falling on end consumers

FTT: State of play

- Negotiations on Commission proposal for a directive at EU level
  - ⇨ Throughout the first half of 2012
  - ⇨ Not possible to reach a unanimous agreement at EU 27 level within a reasonable period
- Member states seek enhanced cooperation (according to Article 20 of the EU Treaty)
- What is the aim?
  - ⇨ Involvement of as many countries as possible
  - ⇨ Started as soon as possible

FTT: Example for new ways of taxation?

- Tax systems depend on traditional tax bases
  - ⇨ Direct taxes (income/PIT, profit/CIT)
  - ⇨ Indirect taxes (VAT, excise duties)

- Globalized world and new communications systems could lead to a rethinking of tax bases:
  - ⇨ Modern trading systems
  - ⇨ Virtual products and services via internet applications

- FTT first step towards taxing “modern lifestyle”?

Thank you for your attention!