SPEECH/11

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"DO WE NEED A TRANSACTION TAX FOR FINANCIAL SERVICES?"

Speech at the lunch of the Kangaroo Group of the European Parliament

Strasbourg, 14 December 2011

Honourable Members of the Parliament,

Ladies and gentlemen,

Let me first thank you for the invitation and for the opportunity to discuss taxation with you.

Before entering into the core of the debate on financial sector taxation, allow me to make some introductory remarks on the crucial role of taxation in the current economic crisis and on the ambitious set of proposals that the Commission has put on the table.

Annual Growth Survey: The role of taxation

The importance of tax policy in the current economic context has been emphasised in the Annual Growth Survey adopted on 23 November. A new annex on growth-friendly tax policies in the Member States and better tax coordination defines the overall framework. Country-specific recommendations will be developed on this basis in the 2012 Economic Semester.

The general line is that Member States should rethink their tax structures in order to achieve budget consolidation and restore growth. They should also design their tax systems so as to make them more effective, efficient and fairer. The need to increase taxes should also be taken into account.

Tax reforms should go hand in hand with structural reforms if we want to return to a sustainable growth path, stabilise our public finances and restore financial stability.

The 2011 Tax package

This year, the Commission tabled a number of fundamental proposals to deepen tax coordination in the Single Market. These have to be seen as new opportunities offered to Member States to engage in necessary structural reforms.

Let me give you some examples:

First, our initiatives like the **CCCTB** and the new **VAT** strategy contribute to tackling tax breaks and subsidies which create high compliance/control costs for businesses and tax administrations;

Second, our proposals on the review of **energy taxation** and on **financial sector taxation** are key opportunities to shift taxation from labour to less growth-detrimental tax bases in a coordinated manner;

Third, we have also paved the way towards progress in the **fight against tax fraud and evasion**. This is at the heart of the renewed VAT strategy. The **mandate** that the Commission has requested to negotiate bilateral agreements with third countries on savings taxation is also an important initiative in this respect. Although not strictly limited to taxation, I would also mention the adoption of an Action plan to fight against **smuggling** of cigarettes and alcohol along the EU Eastern Border.

Finally, I should also mention actions on behalf of both businesses and citizens to fight against **double taxation**. This work will be complemented later this week by new measures on inheritance taxation.

As you can see, the year was prolific in terms of new proposals submitted by the Commission. I hope that next year will see a corresponding result in terms of these proposals being adopted by the Council.

FTT: The objectives

Let me now turn to the subject of today's lunch debate dedicated to the taxation of the financial sector. In times of budget consolidation and of a need for sustainable economic growth: Do we need a financial transaction tax?

The answer is definitively YES! And the Commission prepared the way for this to happen with its proposal adopted last September.

The main aims of our proposal for an FTT are:

- First, to ensure that financial institutions make a fair and substantial contribution to public finances which are under extreme pressure. An FTT offers great potential for assuring growth-enhancing public spending or other economically sound budget measures and policies;
- Second, to discourage unwarranted and leveraged transactions such as high frequency trading which inflate market volumes in all segments. This should complement regulatory measures and expose Financial market actors to price signals;
- Third, to establish a level playing field and strengthen the Single Market by creating a harmonised framework. This would help to reduce competitive distortions by enabling countries to apply the tax without having to fear relocation of financial activities;
- Finally, the proposal should also be seen as a key step towards making progress on a global solution to taxing financial transactions.

According to our analysis, no other policy instrument would be able to deliver on all these objectives. Neither a Financial Activity Tax, nor a bank levy, nor a levy on bonuses nor exposing financial services to VAT would deliver on these goals.

I will not go into the details of the design of the tax but rather highlight some of its elements in order to clarify the added value and impact of our proposal.

First, it is important to be clear on the scope of this tax. The FTT will tax the trading typically carried out by financial institutions. The day-to-day financial activities of ordinary citizens or companies are not to be taxed. Neither would be the primary markets where companies and governments issue securities necessary to finance their activities. Therefore, financing of the real economy such as industrial projects will not be directly affected. This will mitigate the risk of adverse economic effects.

Second, the tax rate proposed is very low in order not to penalise medium and long term investing strategies. Only aggressive and very active investment strategies such as high frequency trading or very actively-managed pension and hedge funds will be affected.

Third, the proposal contains measures to fight tax avoidance effects. In this respect, together with low tax rates differentiated per product group, we propose taxation at the place of establishment of the financial institution. In combination with other administrative tax cooperation instruments and regulatory reforms aiming at more financial market transparency, it will adequately target tax avoidance.

As a result, delocalisation would not be an option for avoiding the tax, unless the operator wants altogether to abandon European markets and its clients in the European markets.

Negotiating FTT

Let me now conclude with a few words on the state of play of the negotiation process of the FTT proposal.

After a first debate in the ECOFIN in November, we have seen the start of a convergence of views among the Euro zone members. The proposal must now be analysed in detail by the Member States. I am grateful to the Danish Presidency who already demonstrated a very active and cooperative approach on this file, as on most of our taxation files. This should allow us to progress quickly in 2012.

Following the last European Council, a lot of speculation on the future of the FTT in the EU was reported in the press. The situation is as clear after as it was before: A proposal is on the table of the Council, based on article 113 of the current treaty and to be adopted at unanimity.

I consider for my part that the discussions last week just confirmed what we knew: it will be extremely difficult to convince some of our Member States. However I expect each of them to contribute positively to the technical analysis of the proposal. For my part, I will continue to work for a solution at 27 as this tax is an answer to the preoccupation of the vast majority of our citizens, and not a threat for a small minority of white collars around Canary Wharf, Place de la Bourse or BankenViertel.

To finish with, I would like to wish you all my best Season's Greetings for the end of the year. I hope we will maintain and further deepen next year the very fruitful cooperation we have developed with the European Parliament in the field of EU tax policy in 2011.