Taxing the financial sector

Geoff Lloyd
Senior Adviser
OECD Centre for Tax Policy and Administration

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Tax role in financial instability?

- Bias in favour of debt (leverage)?
- Tax and bank capital adequacy?
- Capital gains vs income (risky debt)?
- Tax havens and SPVs?
- Mortgage interest deductibility?
- Arbitrage opportunities from derivatives?

Tax was not a primary driver of the business model which led to the crisis …..

…. but may have reinforced it in a number of areas

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What's special about taxation of the financial sector?

- Difficulty in identifying financial income and categorising financial transactions for tax purposes
- Compromise nature of taxing capital income
- Accounting/ regulatory/ tax tensions
- High mobility of tax base
- Tax neutrality benchmark vs widespread financial market failures

Lessons for taxing financial sector in future

- Take opportunities to address non-neutralities
- Response to market failures – primary tool is regulation, but tax may have a role, eg in addressing linkages between tax and risk-taking, and opportunities for tax and regulation to be mutually reinforcing
- Fiscal consolidation – gives opportunity to reduce distortions, reduce tax driven-arbitrage, reduce tax compliance risk

Whether or not tax was part of the problem ….
…. it should be part of the solution

Taxing the financial sector – a repair agenda

- Better access to and use of 3rd party information
- Building tax transparent tax compliance by banks
- Exploring potential for multilateral approaches to achieving better compliance
- Tackling international tax arbitrage

Plenty of debate on new taxes/ levies …..

…… but also scope for repairing the current tax system alongside repair of the banking system