Citizens' summary

Proposal for a Financial Transaction Taxation (FTT)

WHAT'S THE ISSUE?

- The public sector, and thus the tax payer, supported the financial sector during the financial crisis. The financial sector should now bear its fair share for the costs through a tax on financial transactions
- The crisis has shown that some high risk activities of the financial sector should be discouraged as in some cases they may cause damage to the real economy. This mainly holds for certain highly-leveraged derivatives and some high-frequency automated trading activities.
- Already some EU countries have independently introduced or started to put in place national tax instruments to this end. A coordinated framework at EU level would avoid national fragmentation and distortions of the EU Single Market: double taxation, non taxation, cumulative effects, and harmful tax competition.

WHO WILL BENEFIT AND HOW?

- Society at large will benefit from this tax as it will make the financial sector pay its fair share of the cost incurred by the crisis and the tax will help to provide more stability in the financial system by discouraging high risk activities.
- The actors on the single market of financial services will benefit from a more harmonised tax treatment of transactions within the EU. Individual national transaction taxes might need to be adapted or removed.
- Member States will benefit from this new public revenue stream both as a direct financing to their own budget and a possible reduction of their contribution to the EU budget if it was decided that revenues from the FTT should go to the EU budget.

WHY DOES ACTION HAVE TO BE TAKEN BY THE EU?

- A financial transaction tax should be harmonised at EU level because uncoordinated national policies could harm the functioning of the Single Market. It would also reduce the risk of relocations from one financial market to another.
- The Directive will only harmonise to the extent necessary and fix the minimum rates which will be applicable in all Member States.
- Financial markets and institutions are globally organised therefore, the adoption of a FTT at EU level is only a pragmatic first step. Discussions about a global FTT are currently taking place at the levels of the G20 and the United Nations. The Commission strongly supports the introduction of a global FTT on the basis of its own proposal.

WHAT EXACTLY WILL CHANGE?

- Most day-to-day financial activities relevant for citizens and businesses will remain outside of the FTT. For example, the conclusion of insurance contracts, mortgage lending, consumer and business credits or payment services are not included in the scope of this tax.
- The tax will be applied to the transactions carried out by financial institutions (banks, investment firms, insurance undertakings, collective investment undertakings, etc.) acting as

party to a transaction, either for their own account or for the account of other persons. As a rule, all types of financial institutions established in the EU will have to contribute.

- Most financial instruments (securities, bonds, etc.) and derivatives thereof (such as options or swaps) will be covered by the FTT. The issuance of shares and bonds by companies and the public sector (the "primary market") will not be covered by the tax.
- When EU countries set national taxation on financial transactions, its rules will have to comply with the EU rules and the minimum levels of taxation for the various transaction types will have to be respected in all EU countries.
- The proposed tax rates are rather low. So, even if private households engaged in trading on stock markets, e.g. buying or selling shares, the additional tax burden will be rather low. Additionally if both parties to the transaction are in the EU the tax burden will be shared between them.

WHEN IS THE PROPOSAL LIKELY TO COME INTO EFFECT?

The proposal is expected to come into effect from 1st January 2014.

Data for search engines	
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