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European Commission  
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Commissioner Algirdas Semeta  
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## **Response to the consultation on financial sector taxation**

Dear President Barroso,  
Dear Commissioner Semeta,

For a long time Attac has warned of deliberalization and free-market ideology that paved the way to the financial crisis. We are not glad about the total state aid of € 351.7 billion granted in 2009 to the financial sector in the context of the financial crisis<sup>1</sup>. Hence we welcome the efforts of the European Commission to achieve a fair and substantial contribution to public finances by the financial sector.

Our arguments follow the order of the questionnaire.

### **Taxation of the financial sector**

The financial crisis is a systemic crisis and its responsibility may not be attributed just to the financial sector but also to academics and policy. The financial sector was extremely profitable during the last decade(s) and its failure has been so striking that a major contribution to public finance is apparently justified.

The financial sector is under-taxed and largely benefits from hidden subsidies. New Economic Foundations name these as the „Too Big to Fail subsidy“ by implicit public

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<sup>1</sup> Report on State aid granted by the EU Member States - Autumn 2010 Update (SEC(2010) 1462 final)

guarantees for systemically important financial institutions, the „quantitative easing windfall subsidy“ due to granting cheap money to the financial system, and the „make the customer pay subsidy“ due to profits from an increased interest-rate spread<sup>2</sup>. These subsidies account for more than £ 30 billion annually just for British banks. Further under-taxation results from VAT exemption, and because multinational financial institutions may relocate financial assets and profits quite easy and therefore can evade taxation far better than most other companies.

Financial taxation should not aim only on fiscal consolidation but also on re-regulation. Many profit-driven entities in the financial sector, especially investment banks but also private banks and federal state banks (German Landesbanken) were largely involved in the evolution of the crisis while others like cooperative banks and German saving banks were not. The FTT is the far better instrument for targetting excessive speculation that played (and still plays) a large role in destabilizing the economy compared to FATs and bank levies, and it also generates more revenues which are urgently needed.

Alternative investment funds did not contribute as much to the recent crisis like investment and commercial banks but they share many problematic features like high risk-taking (see the collapse of Bear Sterns due to in-house hedge funds or the collapse of LTCM) and extensive use of offshore financial centres. The shadow banking system played a central role in the crisis and is regarded by many as providing the ground for the next financial crisis. Thus, regulation and taxation should also involve AIFs. The FTT is the far more better instrument for that purpose than bank levies and FATs.

### **The FTT**

The G20 summit in Toronto 2010 showed that a global agreement on any financial taxation is very unlikely in the near term. Therefore the EU should introduce the tax as fast as possible on its own. This is also a matter of democratic behaviour as the European parliament has explicitly urged to go for an EU-FTT in 8th of March 2011 (Podimata report).

The EU should use any opportunity to push for an FTT at G20. Is it likely that other countries may follow once an FTT is going to be implemented at European level. The EU should also show full support to the proposal of Sarkozy to channel revenues to financing for development.

The centralized approach will work if the important financial centres in a time zone introduce the FTT. For an EU-FTT this will be the case. Substantial relocation of trading to offshore financial centres is unlikely (see box).

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<sup>2</sup> See New Economics foundation (2011): Featherbedding Financial Services, [http://www.neweconomics.org/sites/neweconomics.org/files/Feather-bedding\\_Financial\\_Services.pdf](http://www.neweconomics.org/sites/neweconomics.org/files/Feather-bedding_Financial_Services.pdf)

### **Counter-arguments against relocation of trading to offshore financial centres**

Many funds do already operate from offshore places since these jurisdictions serve as tax heavens (i. e., for reasons of income tax circumvention).

Many/most of them engage in short-term trading (“trend-followers”) which is exclusively done on organized derivatives exchanges all around the world. To the extent that they (have to) trade on exchanges in FTT countries (Eurex in Frankfurt, Euronext in London, provided that also the UK introduces an FTT), they have to pay the FTT at the exchanges.

Those funds which do not trade frequently, e. g., private equity funds, would not be affected by an FTT, irrespective where they operate.

The high-frequency traders cannot move offshore for their computer servers need to be located as close as possible to the servers of the exchanges.

To the extent that offshore hedge funds trade in over-the-counter markets they would/could be forced to clear and settle their trades through Central Counterparty Platforms (CCPs) or Central Securities Depositories (CSDs). This is so because the G20 as well as the EU are determined to legally force all banks and other financial institutions to centrally clear their OTC transactions. In this case counterparties from countries outside the EU would also be obliged to use the CCPs if they want to do business with financial institutions from EU countries.

Although an FTT at global or EU-level is preferable, it is not mandatory. Financial transactions may be taxed according to the personal principle (decentralized approach)<sup>3</sup>. The European commission should not hinder if the eurozone or another coalition of the willing wants to introduce an FTT.

The tax base of an FTT should be as broad as possible and OTC transactions should be included. Hence, clearing of OTC derivatives must become mandatory. The tax rate should be at least 0.05 %. We recommend the centralized approach for an FTT at EU level where the tax is collected at the point of settlement<sup>4</sup>. The revenues should be divided between the country of the buyer, the country of the seller and supra-national institutions for financing global issues (as foreign aid, global environmental issues). More flexible tax rates may be implemented at a later stage as a regulative measure (like the Tobin-Spahn-Tax)<sup>5</sup>.

Attac Germany proposes a technical control board for financial products („Finanzmarkt-TÜV“). Complex and intransparent financial innovations would not get approval. Hence a circumvention by financial engineering would not be possible.

The FTT has a cumulative effect that will make certain business models less profitable or unprofitable. That effect is desired. It will fall on those who trade frequently and will

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<sup>3</sup> See Schulmeister (2011):

[http://stephan.schulmeister.wifo.ac.at/fileadmin/homepage\\_schulmeister/files/FTT\\_tax\\_forum\\_29\\_03\\_11.pdf](http://stephan.schulmeister.wifo.ac.at/fileadmin/homepage_schulmeister/files/FTT_tax_forum_29_03_11.pdf)

<sup>4</sup> See above.

<sup>5</sup> Jetin, B.; Denys, L. (2005): Ready for implementation, [http://www2.weed-online.org/uploads/CTT\\_Ready\\_for\\_Implementation.pdf](http://www2.weed-online.org/uploads/CTT_Ready_for_Implementation.pdf)

be paid by certain financial institutions specialized on short-term trading and those (usually well-off) people who provide them with money. Lower or middle class citizens will yield a net benefit because of increased stability of the financial system and improved public finance while the direct tax burden is negligible. An FTT will have an overall positive effect on employment because the dampening of speculation will make financial markets more stable which is beneficial for economy and growth. It will have an overall positive effect on SMEs because the stability of the financial system will increase, long- and medium-term volatility of prices will decrease and the tax revenues foster public investments in infrastructure or education.

### **FATs**

A special tax on profits and large salaries seems principally justified against the background of the large profits in the financial sector. However FATs have specific shortcomings. They may only complement an FTT but by no means replace it.

A large disadvantage of FATs is that it does not discriminate between income from „boring banking“ and income from speculative short-term trading. Hence, income of local banks that serve SMEs or citizens would be taxed by an FAT in the same way as financial institutions that make most of their profits from potentially destabilizing short-term trading. In fact, local banks would be taxed more as transnational institutions which are capable to shift profits to countries without FAT. Similar, hedge funds will avoid the FAT by operating from offshore places. Non-financial corporations will remain untaxed if they are engaged in financial activities. Equal tax treatment should target activities, not specific types of institutions. The FAT fails to do that in opposite to the FTT. It may also encounter severe legal problems due to German constitutional law.

### **Conclusions**

The FTT is the far better instrument for achieving a fair and substantial contribution from the financial sector. The potential for revenues is larger and additional revenues are urgently needed for development (e.g. MDGs) or global environmental issues. The tax burden will predominantly fall on short-term trading. The dampening of speculation is likely to improve stability of prices and markets. If implemented in the EU, relocation of trading will be very limited. An FTT will stop braindrain to the financial sector and inter-related waste of resources in unproductive redistribution games. Thus, society will largely benefit from an FTT.

Yours sincerely,

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Attac Germany, in behalf of the Steering Committee

Rainald Ötsch

FTT campaign, Attac Germany