

EU Financial Transaction Tax

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Although the UK is against the introduction of the Financial Transaction Tax (FTT), there is a strong political will for the adoption of some form of the tax at least in some part of the Eurozone. Currently, two basic models of FTT exist. First is a proposal of the EU Commission, second there are two similar models one drafted by France and one in force in the United Kingdom, which are very different to those put forward by the EU.

While EU model is based on the location of purchaser/seller, the French/UK one is based on the type of securities. Huge difference could be seen also in a scope of parties liable to tax and in transactions which are subject to tax. According to EU proposal, financial institutions are liable to tax and there is a broad definition what the financial institution is. It can be e.g. credit institution, insurance undertaking as well as leasing or holding companies.

In terms of types of transaction, almost any will be caught by the FTT – transactions with shares, bonds, derivatives, money-market instruments etc. Because the proposal doesn't distinguish between corporate and non-corporate sector, the FTT would be applicable also on governments bonds. An exemption is a primary issue of shares and bonds. On the other hand, the French/UK FTT would cover only some types of transactions e.g. to prevent high frequency trading. Parties to transactions are not relevant for French/UK model, because, as mentioned before, it is based on the type of securities. Furthermore, the tax is due only by purchaser whereas in the EU model the tax is due by buyer and seller if these are financial institutions. The French/UK model figures on an exemption for market makers, the EU proposal doesn't.

What are the impacts for clients in case the current EU proposal is adopted? Even if the proposal is not a global one, a foreign (non-EU) financial institution can pay the tax and transactions using intermediaries can cause a cascading effect (namely when market makers or asset management funds are involved). No doubt that the

FTT brings extra costs to financial institutions. It will be a huge challenge in terms of gathering data and finding the relevant transactions subject to tax. Moreover the tax from electronics transactions must be paid on the same trading day when the transaction was carried out.

EU model proposes for transactions related to derivative agreements the tax rate of 0,01 %, for other than derivative agreement 0,1 %, the French model proposes 0,1 % for tax on the main French listed equities, 0,01 % for high frequency trading and 0,01 % for CDS on government bonds, the UK model is defined as a stamp duty of 0,5 %. As mentioned before, the EU model can cause the cascading effect which could increase the final cost of FTT up to 70bp. A penalty regime is not yet specified.

The EU model of the FTT would raise about EUR 57 billion, which is one of the reasons why the tax is so attractive for the EU. The tax revenue would decrease in case the stamp duty model (UK) is introduced instead of the EU one, mainly because of a narrower tax base and because it would avoid the multiple hits of the tax.

To introduce the FTT EU wide, the unanimity is necessary. That means as long as the UK is against the EU model of FTT, it cannot come into force. UK veto may not be effective in case of enhanced cooperation mechanism. Enhanced cooperation is a procedure where a minimum of 9 EU member states are allowed to establish the FTT without other members being involved. They need to have a qualified majority represented by 70 % of population. Although 10 countries are currently

supporting the EU FTT model, they are not enough to give 70 % qualified majority vote – there are about 50mil. inhabitants below the threshold.

PwC believes that French or UK model has a higher likelihood to be adopted because while the EU model nobody operates now, similar models to the French draft and UK's one are operating in Hong Kong and Ireland. Furthermore, Germany is now starting to be more interest in other ways of taxing financial transactions than the EU model proposes. The key date for the final decision will probably be at the end of June when an EU summit takes place.

An excessive burden of the FTT could influence prices of all financial services as financial institutions will try to transfer the costs to their clients. Considering the huge impact on large scope of businesses, everybody must pay high attention to the future FTT's development.

Actual position of EU Member states as of the end of the March:

- UK would agree with introduction of FTT only on global level (London would lost its position as a financial centre)
- DE purposed a two-phase introduction – in the first step, UK or FR model, could be use
- FR agrees with "some" form of FTT
- NL is considering bank tax or bank levy, attitude to the FTT depends on the goal of the tax (would agree with "a fair contribution of financial sector")

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