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The European Commission Wants the Financial Sector to Pay

T. Christina Colosimo

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After the global economic crisis, the European Union's (EU) economy has suffered one of the worst recessions since the 1930s. The financial sector played a major role in the EU's economic crisis starting in 2007 with a steady increase of failing banks.[1] EU governments and citizens committed €4.6 billion in an effort to support and rescue the financial sector with taxpayer funded bailouts.[2]

The European Commission's (Commission) response to the recession has been swift and proactive. On September 28, 2011, the Commission announced a proposal for a financial transaction tax (FTT) for the 27 Member States as a resource for the EU's budget.[3] The Commission's proposal for the FTT is available at http://ec.europa.eu/taxation_customs/resources/documents/taxation/other_taxes/financial_sector/com(2011)594_en.pdf. The proposal requires unanimous support from the 27 Member States, and if approved by all, it would levy a tax on transactions involving financial instruments between institutions if at least one party is located in the EU.[4] The tax rate for the exchange of shares and bonds is set at 0.1% and a rate of 0.01% on derivative contracts.[5]

The Commission has considered a financial transaction tax since the bailouts. The financial sector's contributing role in the financial crisis has piloted the proposal and will ensure that the financial sector contributes at a time of fiscal need. The proposed FTT will raise revenue of €57 billion ($78 billion) in one year, and the tax will strengthen the EU single market.[6] The FTT is also designed to create a disincentive for transactions that do not enhance the efficiency of the financial markets and will prevent a future crisis.

European governments are split over the merits of the proposed financial transaction tax. Some fear that the tax may drive business away from the EU,

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[1] See *Economic Crisis in Europe: Causes, Consequences and Responses*, EUROPEAN COMMISSION (July 2009), *available at* http://ec.europa.eu/economy_finance/publications/publication15887_en.pdf.

[2] *Id*.

[3] Press Release, European Commission, Financial Transaction Tax: Making the Financial Sector Pay (Sept. 28, 2011), *available at* http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1085&format=HTML&aged=0&language=en&guiLanguage=en [hereinafter Commission Press Release].

[4] Rebecca Christie, *EU proposes Financial Tax-to Start in 2014*, BLOOMBERG NEWS (Sept. 28, 2011, 10:52 a.m.), http://www.businessweek.com/news/2011-09-28/eu-proposes-financial-transactions-tax-to-start-in-2014.html.

[5] *Id*.

[6] Commission Press Release, *supra* note 3.

increase the cost of raising capital and damage member states' economies.[7] The UK believes that the Commission needs to realign its focus on growth during the recession, rather then implementing a tax that will push the financial sector abroad to New York and Singapore.[8] Financial Times Newspaper also reported that the proposal could shrink EU's gross domestic product by 1.76 percent over time.[9] The Commission reconvenes in November at the G20 meeting in Cannes, and it will offer more details on the proposal's status.

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[7] *Transaction Tax Proposal Divides Eu States*, DEUTCHE WELL-WORLD.DE (Sept. 9, 2011), http://www.dw-world.de/dw/article/0,,15424378,00.html.

[8] *See* Commission Press Release, *supra* note 3. *See also* Jamie Grierson and Geoff Meade, *UK Opposes EU Transaction Tax*, THE INDEPENDENT (Sept. 28, 2011), http://www.independent.co.uk/news/world/europe/uk-opposes-eu-financial-transaction-tax-2362227.html (stating that the UK government rejected similar proposals raised by its French and German counterparts in September 2010).

[9] *Id*.