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THE EUROPEAN COMMISSION WANTS THE FINANCIAL SECTOR TO PAY

T. CHRISTINA COLOSIMO†

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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2 Id.


5 Id.

6 Commission Press Release, supra note 3.
increase the cost of raising capital and damage member states’ economies. The UK believes that the Commission needs to realign its focus on growth during the recession, rather than implementing a tax that will push the financial sector abroad to New York and Singapore. Financial Times Newspaper also reported that the proposal could shrink EU’s gross domestic product by 1.76 percent over time. 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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9 Id.