Innovative financing at a global and European level

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Anni PODIMATA (S&D, EL) on innovative financing at global and European level in response to the Commission staff working document on innovative financing at a global and European level and the Commission Communication on the taxation of the financial sector.

Members take note of the work carried out so far by the Commission to respond to the call made by Parliament in its resolution of March 2010 for a feasibility study on financial transaction taxes at global and EU level. They call for the result of a comprehensive impact assessment and possible concrete proposals to be made public by summer 2011, as announced in the Commission's communication on Taxation of the Financial Sector. A balanced and thorough feasibility study on an EU Financial Transaction Tax (FTT) should be the basis on which the procedure for introducing such a tax is implemented. Members emphasise that an increase in the rates of existing taxation tools and further cuts in public expenditure can be neither a sufficient nor a sustainable solution to address the main challenges ahead. The focus should be on removing the remaining barriers in the internal market, with studies showing that EUR 200 to 300 billion could be saved annually if all barriers to the four freedoms were removed.

Members go on to state that one of the main advantages of innovative financing tools is that they can bring a **double dividend**, as they can at the same time contribute to the achievement of important policy goals, such as financial market stability and transparency, and offer significant revenue potential; stresses, in this context, that the effects of these tools on the negative externalities produced by the financial sector should also be taken into account;

Taxation of the financial sector: the committee welcomes the Commission's recognition that the financial sector is under-taxed, in particular because no VAT is levied on most financial services, and it calls for innovative financing measures to raise more from this sector and contribute to shifting the burden of taxation away from working people. The introduction of an FTT could help to tackle the highly damaging trading patterns in financial markets, such as some short-term and automated HFT transactions, and **curb speculation**. **Members favour the introduction of a tax on financial transactions**, which would improve the functioning of the market by reducing speculation and help to finance global public goods and reduce public deficits. The introduction of a tax on financial transactions ought to be **as broadly based as possible**. The report calls on the Commission swiftly to produce a feasibility study, taking into account the need for a global level playing field, and to come forward with concrete legislative proposals.

The current revenue estimates for a low-rate FTT, which could yield nearly EUR 200 billion per year at EU level and $650 billion at global level, could constitute a substantial contribution by the financial sector to the cost of the crisis and to public finance sustainability. Members call on the G20 leaders to speed up the negotiations for an agreement on the minimum common elements of a global FTT and to provide guidance on the desired future of these various kinds of taxation.

The report goes on to state that the **flow of merely speculative transactions to other jurisdictions would have few detrimental effects**, but could also have the potential to contribute to increased market efficiency. An FTT should have the broadest base possible so as to guarantee a level playing field in the financial markets and not drive transactions to less transparent vehicles. Members insists

on determining who will ultimately be paying the tax, as the burden usually falls on the consumer, who in this case would be retail investors and individuals, and they stress the need for comprehensive rules on exemptions and thresholds, in order to prevent this.

Comparing other financing tools, the committee states that bank levies, a Financial Activities Tax (FAT) and an FTT each serve different economic objectives and have different revenue-raising potential. Since they are based on balance-sheet positions, **bank levies cannot take on the role of curbing financial speculation** and further regulating shadow banking; in that connection. Members also stress that an **FAT is mainly a revenue-oriented tax tool** that targets the financial sector, making it possible to tax economic rents and profits from excessive risk-taking, and as such could provide a solution to the current VAT exemption of the financial sector.

The question regarding the **purpose for which the revenues raised by an FTT should be used** needs to be resolved in order to give taxpayers a proper picture of the rationale behind additional financial sector taxation. Members feel that, owing to its global nature, the revenue raised by a global FTT should be used to provide financing for global policy goals, such as development and poverty reduction in developing countries and the fight against climate change. In order to safeguard the European added value of the innovative financing tools a part of those revenues could be allocated to finance EU projects and policies, and Members call for a broad debate on the choices available.

Eurobonds:the committee calls on the European Council and the Commission to provide an immediate response to Parliament's call in its resolution on the permanent crisis mechanism for the necessary political signal to be given for a Commission investigation into a future system of Eurobonds. It supports the idea of issuing common European project bonds to finance Europe's significant infrastructure needs and structural projects.

Carbon tax:Members support a strengthening of the Emissions Trading Scheme (ETS) and a comprehensive revision of the Energy Taxation Directive to make CO2 emissions and energy content basic criteria for the taxation of energy products. A carbon tax and the revision of the Directive should set the minimum mandatory requirements for all Member States, leaving it to up to each Member State to go further if it sees fit. However, the scope for a global agreement at G20 level or within the WTO should be fully explored before such a tax is imposed on foreign imports into the EU in order to ensure that this border taxation adjustment tool does not give rise to a shortage of raw materials, on the one hand, and retaliatory measures by third countries against EU exports, on the other.

Financing for development: the report calls for a re-affirmation by the Member States of their pledge to earmark 0.7% of their gross national income GNI to official development assistance, deploring the fact that only Sweden, Luxembourg, Denmark and the Netherlands reached this goal in 2008. Innovative financing for development can complement traditional development aid mechanisms and should be additional to the UN goal of 0.7% of GDP devoted to development cooperation. Members stress at the same time, the need for developing countries to step up their own efforts in the area of taxation, mainly as regards tax collection and the fight against tax evasion.