

# Implementing enhanced cooperation in the area of financial transaction tax (FTT)

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The Council **discussed a proposal** aimed at introducing a financial transaction tax (FTT) in 11 Member States - Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain - through the "enhanced cooperation" procedure. The Commission's proposal now under discussion was tabled in February 2013. It requires unanimous agreement of the participants, while other Member States can also participate in deliberations.

At the ECOFIN Council Meeting of 6 May 2014, the Ministers of ten participating Member States released a Joint Statement which, essentially, contained the following commitments of these Member States:

- they aim to **create a harmonised taxation regime** to tax financial transactions, work with non-participating Member States and finalize viable solutions by the end of 2014;
- FTT should be implemented **progressively**, taxation of transactions in shares and some of the derivatives being the first step (at the latest by the end of 2015) and other steps are to be taken when economic impact is duly considered;
- Member States that already have further-reaching national FTT would be able to maintain it.

On this basis, the **Italian Presidency has continued negotiations to discuss possible solutions to the open issues**. The Italian Presidency has therefore directed its main efforts on: (i) defining the scope of the transactions that would constitute the scope of the FTT at the first phase, and (ii) seeking an agreement on the basic principle of taxation that would apply for the whole structure of the FTT.

Measurable progress has been made towards convergence of views of the Member States on the scope of the FTT. It noted that the participating member states agree that transactions in shares of **companies listed on stock exchanges** should be subject to the FTT. However, further work is required on **derivatives** to be subject to the FTT.

**Taxation of transactions in derivatives:** most participating Member States are in favour of taxing, as a first step of the FTT implementation, transactions in derivatives which are based on the underlying that fall under the scope of the FTT (i.e. the transactions in the underlying of which are subject to FTT - e.g. equity derivatives - where transactions in that equity will be within the scope of the FTT).

Some Member States have concerns with regard to the taxation of interest rate derivatives, at least in the first phase of the FTT. Other Member States have also expressed a preference to tax transactions in certain types of credit default swaps, and some other delegations, however, want to exempt equity derivatives.

**Application of "issuance" and "residence" principles to define FTT:** a group of participating Member States prefers the approach followed by the Commission proposal, i.e. application of the residence principle, supplemented by the issuance principle as last resort. However, a number of other participating Member States are in favour of the application of the issuance principle: according to this principle, the tax would be levied depending on the place of the establishment of the issuer.

In order to reach a compromise, the Presidency explored the possibility to **combine the application of the issuance principle with a revenue allocation mechanism** to ensure a distribution of FTT revenues among participating Member States taking into consideration also other parameters (residence principle, combination of residence and issuance, or economic drivers).

The Presidency proposed three possible methods for the allocation of revenues among Participating Member States. **However, delegations could not agree on the solution of revenue distribution** that would be acceptable to all of them.

The Presidency indicated that work would be intensified to enable an agreement in the near future, with the aim of implementing a first phase of the FTT from 1 January 2016.