AT A GLANCE: THE FINANCIAL TRANSACTION TAX

What difference a tiny tax could make for poverty reduction and the fight against climate change

BACKGROUND

Taxes on financial transactions are not a new idea. Different types of financial transaction taxes such as the Tobin tax and the UK stamp duty have been discussed for many years and some have already been implemented. A type of financial transactions tax (FTT) already exists in more than 40 countries in the world. However, it is only with the collapse of the investment bank, Lehman Brothers, on 15th August 2008 and the subsequent financial crisis that a shift in thinking has happened in Europe and that the FTT, as an answer to the financial crisis, has made its first strong appearance in political discourse.

OUTLINE OF THE TAX

The financial transactions tax is a tax on trade on financial products. The currently discussed model of the FTT is based on the European Commission proposal from 2011: 0.1% on stocks and bonds and 0.01% on derivatives. The tax is levied each time a transaction is made, so when financial products are bought or sold. Normal business channels such as transfers, deposits or withdrawals of cash are not affected.

STATE OF PLAY

The financial transactions tax is very likely to be introduced in 2013 in the context of an enhanced cooperation between eleven[1] European countries (12 if the Netherlands confirm they want to join). According to the German Institute for Economic Research (DIW) an FTT by these 12 countries could raise €40bn a year (€37bn without the Netherlands).

Tax evasion would be made really difficult with "the residence principle" proposed by the Commission. The FTT would be based on the principle of tax residence of the financial institution or trader. Taxation would therefore take place in the Member State in which the establishment of the financial institution involved in the transaction was deemed to be located. A financial transaction will be taxed every time an EU resident is involved even if the transaction was carried out outside the EU. The only possibility for EU resident entities to avoid the proposed tax is to relocate themselves to third countries completely or through the formation of subsidiaries and in both cases give up their European customer base, which it is unlikely to be adopted.

USE OF REVENUES FOR POVERTY REDUCTION AND THE FIGHT AGAINST CLIMATE CHANGE

The financial and economic crisis had an impact worldwide. The poorest people in the world who have contributed least to the emergence of the crisis and have the fewest resources to protect themselves from its effects have also been affected. The UK's Overseas Development Institute for example estimates that poor countries will lose €184bn (USD 238) in 2012-13 as a result of falling

[1] Germany, France, Italy, Spain, Portugal, Greece, Austria, Belgium, Slovakia, Slovenia, Estonia.

trade, aid investment and remittances caused by the Eurozone crisis. The World Bank estimates that 64 million people have been pushed into poverty by the global financial crisis. 2011 was the first time in a decade that development aid level went down.

In the 2009 climate talks in Copenhagen, industrialised countries committed to help developing countries reduce their own carbon emissions, protect their people from the worst effects of climate change, and transition to a low carbon development pathway by mobilising $100 billion a year by 2020 and establishing an international climate finance fund, the Green Climate Fund (the GCF). As today no guarantees have been given by industrialised countries on how they will respect their commitments and the GCF remains empty and the actual costs of climate change in developing countries could be actually twice as high as expected.

The FTT is an historic opportunity to face these challenges. That is why, in addition to social spending at home to alleviate the consequences of the economic crisis, a significant proportion of the revenues of the European FTT should be used for development and the fight against climate change in developing countries. It is only fair that has had a strong role in creating this crisis contributes to paying for its effects.

A broad coalition of civil society organizations as well prominent figures such as Kofi Annan, Desmond Tutu, Bill Gates, UN Secretary General Ban Ki Moon, the Vatican, President of the European Commission Barroso, Tax Commissioner Semeta, former French President Nicolas Sarkozy, French President Hollande and African finance Ministers have supported the allocation of the FTT to development and the fight against climate change. While it is far from enough, France has already committed to allocate 10% of its own FTT to development and the fight against climate change, showing that even in a context of economic crisis it is possible for European governments to do so.

WHAT COULD THE FTT BRING TO THE WORLD?

- That is €101 million a day, €4.2m an hour; €70,000 a minute and €1,173 a second.
- The additional revenues brought by the FTT could contribute to EU's commitments to fight poverty worldwide and contribute to the achievement of the Millennium Development Goals and the upcoming post 2015 framework.
- If half of the FTT revenue goes to development, it could help about 550 million people in the poorest countries to access free healthcare.
- Just a third of the revenues of the EU 11 FTT could fill the funding gap in the area of basic education so all children in the poorest countries could attend school (UNESCO Report UNESCO (2010)
- Allocating a quarter of this sum to the Green Climate Fund would guarantee an annual predictable replenishment of almost €10bn into the Fund which currently still stands empty
- In the area of climate change, the FTT could contribute to Europe's fair share of climate finance.

Learn more on what the FTT could do for the world here: http://robinhoodtax.org.uk/why-we-need-robin