# IS AN E.U. FINANCIAL TRANSACTIONS TAX COMING IN 2016?

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Although the origins of the Financial Transactions Tax ("F.T.T.") date back to the 1970's,[1] the European Commission first proposed a European Union-wide financial transactions tax in 2011. The proposal came at a time when many Europeans were concerned about the bad behavior of large banks and several E.U. countries were spending billions of dollars to bail out failing banks, while imposing austerity measures to counterbalance the impact on their budgets.

So far, 11 of the 28 E.U. countries have agreed to work toward a plan for the F.T.T., and their last meeting took place in June.[2] After that meeting, the French Finance Minister told reporters that a proposal is expected to come out in July and will likely consist of a tax with a broad base but a low rate.

## THE DEVELOPING PROPOSAL

Although the proposal is still developing, the rough outline for the F.T.T. has been established as follows: A tax on all transactions involving financial instruments between financial institutions when at least one party to the transaction is located in the E.U. For exchanges of shares and bonds, the proposed tax rate may be 0.1%, and for exchanges of derivatives, the proposed tax rate may be 0.01%.

The tax could apply to a financial transaction if either a participant to the financial transaction or the issuer of the financial instrument is located in a participating state.

## OPEN ISSUES

Some of the issues being considered are:

1. Whether there should be an exemption from the tax for market makers;
2. Implementation of tax collection and revenue-sharing mechanisms;[3] and
3. The impact of the anticipated high cost of compliance.

## WILL THE F.T.T. ARRIVE BY ITS DEADLINE?

Although the deadline for the introduction of the F.T.T. was set for January 2016, many experts believe it is unlikely to be implemented by that time because consensus is building slowly and the open issues are complex.

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1 The origins of the F.T.T. date back to the economist, James Tobin, who proposed a tax on currency transactions as a way to manage exchange-rate volatility.

2 The 11 participating countries are: Germany, France, Spain, Italy, Belgium, Austria, Portugal, Greece, Estonia, Slovakia, and Slovenia.

3 *E.g.*, if one of the participants to the financial transaction and the issuer of the financial instrument are in participating states, who would collect the tax and who would receive the revenue from that tax?