A Financial Transactions Tax:

Ireland & funding development

5th Annual ICTU Global Solidarity Summer School
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Research for new economic policies

Outline

1. Introduction
2. Why a FTT?
3. European Proposal
4. Ireland and the FTT Proposal
5. Using FTT revenues for Development
6. Conclusion

- Based on new NERI Research *inBrief*
- Online from Monday

www.NERInstitute.net

NERI Research inBrief

August 2013 (no6)

Time for Tobin

Ireland and the European Financial Transactions Tax Proposal

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SUMMARY

In the context of the recent international financial crisis, one principally derived from the reckless speculative behaviour of numerous banking and financial corporations, the long-term hesitancy towards a financial transactions tax (FTT) tax has begun to thaw.

Most recently the European Commission and Parliament have set in train a process to see a FTT introduced in a number of EU countries from 2014. The European proposal is far-reaching and will be difficult to avoid for financial institutions who wish to remain active in the implementing states or to trade EU issued financial assets. To date Ireland has been unwilling to support the FTT proposal. An EU wide FTT would give a net tax gain of between €300-550m per annum for Ireland. The gains are likely to be smaller, but positive, if Ireland but not the UK adopts the FTT.

Ireland has much to gain from an EU-wide FTT and should adopt a more assertive position in campaigning for it.

KEY POINTS

- The recent financial crisis has reignited interested in a financial transactions tax (FTT)
- A FTT would: (i) allow states to more adequately monitor the financial sector; (ii) provide additional taxation revenue; and (iii) reduce the volume of high-risk financial transactions.
- The European Commission and Parliament have proposed a FTT which is being pursued by 11 member states.
- The European FTT proposal is structured to capture activities in all markets, all instruments and all actors.
- To date Ireland has been unwilling to support the FTT proposal.
- An EU wide FTT would give a net tax gain of between €300-550m per annum for Ireland. The gains are likely to be smaller, but positive, if Ireland but not the UK adopts the FTT.

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1. Introduction

- Long attention on a 'Tobin tax'
  - o Origin in 1972
  - o a very small tax on global capital flows
- Other terms have appeared recently:
  - o Robin-hood tax: variant of Tobin
  - o Financial Transactions Tax (FTT) = Tobin tax
  - o Financial Activities Tax (FAT) = similar to a VAT on bank profits, remuneration and liabilities…would have to be higher %
- All had been ruled out, but…
- Financial crisis, reckless speculation, societal bills….

2. Why a FTT?

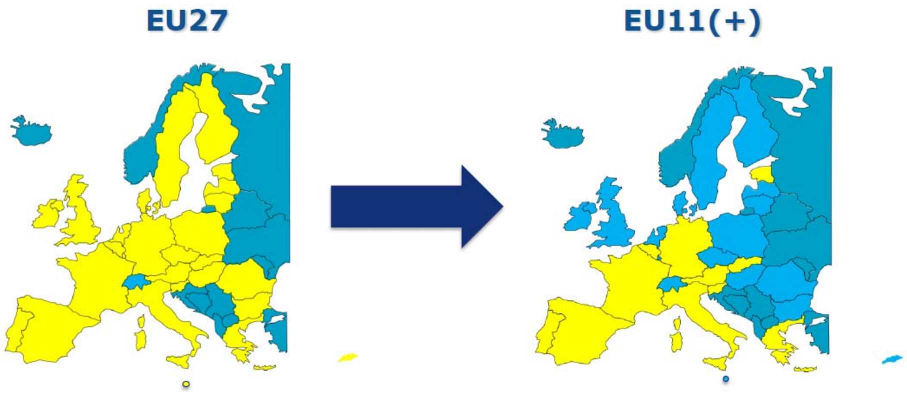
(i) allow states to more adequately monitor the financial sector

(ii) provide additional taxation revenue

(iii) reduce the volume of high-risk financial transactions

3. European Proposal

- EU commission in September 2011 + Parliament subsequently
- An EU-wide FTT…blocked
- 11 countries implementing it…aim for 2014
- Not including Ireland



3. European Proposal

- EU commission in September 2011 + Parliament subsequently
- An EU-wide FTT…blocked
- 11 countries implementing it…aim for 2014
- Not including Ireland
- Very comprehensive proposal:
  - all markets, all instruments, all actors (triple A)
  - residence principle, issuance principle, ownership principle
- Hard to avoid/escape
- €30-35billion (if all EU-27 = €57billion)

The Rates:

- 0.1% (one-tenth of one per cent) on the trading of bonds and shares
- 0.01% (one-hundredth of one per cent) on the value of derivative agreements and 'financial market bets'.
- The rates are minimums as countries with the EU retain the right to set individual tax rates and could choose higher levels if desired.
- In all cases the tax falls separately on each of the parties to the transaction, i.e. buyers and sellers will both pay.

4. Ireland and the FTT Proposal

- Government has been hesitant
- Unwilling without UK participation
- Yet, design implies tax will occur anyway…
- Relocation etc unlikely
- Revenue:
  - + €300-550m (net) per annum
  - some to EU, rest for domestic purposes
- **Ireland has a lot to gain from FTT – should play a more enhanced role at EU level in broader implementation**
- To date, such leadership has been lacking

5. Using FTT revenues…

- Prior to the recession
  - FTT was seen as an idea for funding development
- This has begun to fade as its popularity increases
  - Exchequers, EU budget etc eyeing up the €
- Development sector needs to reassert the case for funding development from FTT
  - Large revenues, should be sufficient for domestic and EU needs, but you need to ask for the €
  - Relevant to increasing ODA towards UN target

6. Conclusion

- Relevant given financial crisis
- Relevant given need for funds
- Relevant given Development needs
- Major progress to date at EU level
- Ireland needs to join-in and aggressively campaign for an almost EU-wide FTT
- Possible and feasible
- **Time for Tobin!**

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