



## **EUROPEAN UNION COMMITTEE EU Economic and Financial Affairs and International Trade Sub-Committee (Sub-Committee A)**

### **Call for evidence: towards a Financial Transaction Tax?**

The House of Lords EU Economic and Financial Affairs and International Trade Sub-Committee, chaired by Lord Harrison, is launching an inquiry into a Financial Transaction Tax and its implications for the UK. We invite you to contribute evidence to this inquiry.

The financial crisis, and its associated impact on Government finances, has intensified debate about the use of taxation either as a way to correct the effects of excessive risk-taking on financial institutions or as an instrument to ensure that the financial sector makes a substantial contribution to public finances.

On 28 September the Commission published its proposal for a Directive on a common system of Financial Transaction Tax (FTT). France and Germany are expected to bring forward their own proposal in the near future. The French Presidency of the G20 has made discussions over a financial transaction tax one of its priorities.

From a UK perspective it is inevitable that the proposition of a tax on the financial sector will attract attention given London's status as Europe's largest financial centre. The UK Government have expressed concerns about introducing such a tax unless it is done on a global basis.

The purpose of the inquiry is to investigate the rationale behind the introduction of a financial sector tax, and will focus primarily on the Commission's proposal for an FTT. It will consider the potential risks, benefits and shortcomings of an FTT and its significance for the City of London. It will assess whether an FTT could plausibly be implemented at an EU level, or whether it will only work effectively if implemented globally.

The inquiry will not consider the debate on an FTT as a possible revenue stream for the EU budget. It will nevertheless welcome views on any other possible uses of revenues arising from an FTT.

**Particular questions raised to which we invite you to respond are as follows (there is no need for individual submissions to deal with all of the issues):**

#### ***PART I General questions on financial sector taxation***

1. Is there a case for the introduction of a tax on financial transactions? Does the current exemption from VAT for most financial and insurance services lead to a tax advantage for the financial sector?
2. What would be the most appropriate form for a taxation of the financial sector? Would a Financial Activities Tax (FAT) be a preferable means of taxing the financial sector? Would other variations (e.g. a currency transaction tax, a securities

transaction tax or a financial tax on derivatives) be a more desirable form of taxation?

3. What lessons can be learnt from the experience of other countries (such as the transaction levy introduced in Sweden in 1984 and abolished in 1991) in relation to a financial sector taxation scheme?

## ***PART II Specific questions on the Commission's proposal for an FTT***

### *Rationale for an FTT and scope*

4. What is your assessment of the Commission's objectives as contained in its proposal for an FTT? Are they fair and appropriate?
5. Does the Commission proposal for an FTT reflect the most desirable design for an FTT?
6. On which transactions should the FTT be levied? Is it appropriate for the FTT to be levied on shares, bonds, derivatives and structured financial products as suggested by the Commission? What should be the rate of the FTT?
7. Is it appropriate for the FTT to be applied on the basis of the residence principle as proposed by the Commission? How likely is the residence principle to work in practice?
8. How significant is the potential for the FTT to raise significant revenues? How reliable would it be as a revenue stream? Where would the true incidence of the FTT fall? Should the revenues arising from the FTT be used to finance the deficits of Member States?

### *Impact and effectiveness*

9. Would the Commission's proposal for an FTT be effective in addressing short term volatility and curbing harmful speculation? Would it reduce excessive risk taking?
10. What would be the impact of the FTT on market liquidity? What effect would the FTT have on speculation in sovereign debt markets?
11. How easily could the FTT tax be circumvented by market operators?

### *Impact of the FTT in the UK*

12. What impact would the FTT have on the UK's financial services sector and the City of London, as well as the UK economy more broadly? If a significant proportion of any transaction tax accrued in London, would the burden necessarily fall on British citizens?

13. How would you assess the likelihood that the FTT would cause financial services to relocate outside the EU, or contribute to a migration of financial transactions towards less regulated parts of the financial sector? Does the UK experience with the stamp duty demonstrate that a modest FTT is not inconsistent with maintaining a successful stock exchange?
14. Will the FTT duplicate existing taxes in countries which have already implemented a bank levy, such as the UK?

### *Implementation*

15. Could such an FTT be plausibly introduced at an EU level, or would an FTT only be effective if introduced globally? Should an FTT be introduced at EU level regardless of whether it is introduced at a global level? In the event that an FTT is not introduced at EU level, would there be a case for its implementation by euro area countries alone?

Those responding to this call for evidence are not necessarily expected to address all these points but instead to focus on those issues on which they have special expertise or about which they are particularly concerned.

### **Written evidence**

Evidence should be submitted to Stuart Stoner, Clerk of the European Union Sub Committee on Economic and Financial Affairs and International Trade, House of Lords, London, SW1A 0PW. The deadline for written evidence is Monday 7 November 2011.

Short submissions are preferred. A submission longer than six pages should include a one-page summary.

Evidence must be clearly printed or typed on single sides of A4 paper, unstapled.

Paragraphs should be numbered. If drawings or charts are included, these must be black-and-white and of camera-ready quality. Evidence should be signed and dated, with a note of the author's name and status, and of whether the evidence is submitted on an individual or corporate basis. Only one copy is required. All submissions will be acknowledged promptly.

**PLEASE NOTE: The evidence should also be made available in electronic form as a Word document.** This should be sent by e-mail to [yusufs@parliament.uk](mailto:yusufs@parliament.uk). We cannot accept submissions in PDF format.

Evidence becomes the property of the Committee, and may be published by the Committee at any stage. Once you have received acknowledgement that the evidence has been received, you may publicise or publish your evidence yourself, but in doing so you must indicate that it was prepared for the Committee. Parliamentary privilege will not apply to your own publication.

Personal contact details supplied to the Committee will be removed from evidence before publication. However, personal contact details will be retained by the Committee Office and used for specific purposes relating to the Committee's work, for instance to seek additional information or to send copies of the Committee's report.

Persons who submit written evidence, and others, may be invited to give oral evidence. Oral evidence is usually given in public at Westminster, broadcast in audio and often video format

on the internet, and transcripts are published. Persons invited to give oral evidence will be notified separately of the procedure to be followed and the topics likely to be discussed.

Written evidence will normally be published online and deposited in the Parliamentary Archives.

Substantive communications to the Committee about the inquiry should be addressed through the Clerk or the Chairman of the Committee, whether or not they are intended to constitute formal evidence to the Committee.

You may follow the progress of the inquiry from the Weekly Bulletin of House of Lords select committees. This is published online and available at <http://www.parliament.uk/business/committees/committees-a-z/lords-select/>.

### **Committee Membership**

Lord Harrison (Chairman)  
Lord Hamilton of Epsom  
Lord Haskins  
Baroness Hooper  
Lord Jordan  
Lord Kerr of Kinlochard  
Baroness Maddock  
Lord Marlesford  
Lord Moser  
Lord Vallance of Tummel  
Lord Woolmer of Leeds