BUSINESSEUROPE

THE DIRECTOR GENERAL

Mr Algirdas Šemeta
Member of the European Commission
B-1049 Brussels
Belgium

Brussels, 18 April 2011

Re: consultation on taxation of the financial sector

Dear Commissioner,

Substantial reforms should be pursued to ensure greater resilience of the financial sector, limit building-up of systemic risks, better protect taxpayers' money and reduce moral hazard in the future.

The core of this reform agenda has been agreed in an internationally coordinated process, including new capital and liquidity requirements and stronger supervision. Appropriate mechanisms for crisis management must be set up to ensure that failing banks can be wound up in an orderly way, limiting disruptions for the financial system and the economy as a whole.

The main contribution of the financial sector to restoring high sustainable growth and greater fiscal sustainability in the years ahead will be to rebuild adequate capital levels, overhaul risk management practices and provide sufficient and affordable financing to meet significant investment needs in the rest of the economy that are required to return to the path of economic growth and job creation.

Any regulatory or tax initiative should be assessed against this background, looking at their cumulative impact. A combination of tighter prudential rules and higher taxation will invariably put upward pressure on the cost of capital and downward pressure on investment and job creation.

Instruments used to ensure a swift return to financial and fiscal stability must be fit for purpose and developed in a way that minimises any unintended consequences on growth in the broader economy.

In our view, rising taxation will as such achieve little in the way of increased financial stability and better crisis management for the future. Proportionate deposit guarantee schemes and resolution funds seem better suited to achieve these objectives.

More generally, taxation of the financial sector should follow similar principles as for the rest of the economy. It should be proportionate, transparent and provide legal certainty for companies. Double taxation should be avoided, and no duplication of purposes should be allowed between regulatory and tax initiatives.

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It is vital to maintain a level playing field and avoid harmful regulatory and tax arbitrages between different jurisdictions, which would be detrimental to all and dangerous for the EU's competitiveness in particular. Increased interdependencies make coordinated actions particularly important.

In this context, BUSINESSEUROPE takes the following positions on the proposal for a European Financial Transaction (FTT) or Financial Activity Tax (FAT):

- We consider that an EU Financial Transaction Tax should not be pursued. Such tax would be immediately passed on to end-users, leading to a higher cost of capital and lower growth. Moreover, different treatment in Europe and elsewhere would distort competition, shift transactions to less regulated areas and potentially lead to counterproductive outcomes in terms of global financial stability.
- Any new tax or levy should be assessed against the cumulative impact of reforms affecting the financial sector, with a particular emphasis on consequences for access to finance. Impact assessments should address the interface with new prudential rules and the possible introduction of privately funded resolution instruments.
- Intra-group transactions and intra-group financing in the non-financial sector should remain unaffected.
- Consistency in cross-border arrangements will be particularly important to preserve market integration, prevent discrimination and avoid cases of double taxation. The risk of segmenting financial services along national borders would be highly detrimental to the Internal Market and its growth potential. We encourage the Commission to concentrate on defining a common approach to double tax relief arising from national measures.
- The debate over new taxes on financial activity should not be treated independently from ongoing reforms of the EU VAT system and the specific treatment of financial services. Defining more clearly the scope for tax exemptions in this area and applying the option to tax financial and insurance services in a uniform way across the European Union are important policy orientations to be pursued in this debate.
- BUSINESSSEUROPE is concerned that any discussion on a "Financial Activity Tax" could turn into one about a "General Activity Tax". Non-discrimination and constitutional rules, combined with growing constraints on public finances make this risk of extension to the non-financial sector anything but a remote prospect. On this basis and for the above-mentioned reasons, we do not see favourably the proposal for a Financial Activity Tax.

We would appreciate if these views are given due consideration when conclusions are drawn from the public consultation on taxation of the financial sector.

Yours sincerely,

Best regards

Philippe de Buck