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NFU Response to Consultation Paper on financial sector taxation

Summary of main points

- The finance sector should contribute to society and fiscal consolidation on a level playing field with other sectors.
- We believe that the objective of financial sector taxation is threefold: a) maintain stability and eliminate excessive risk taking in the financial sector; b) make the 'polluters pay principle' apply, i.e. make risk takers pay; c) generate revenue to bank resolution funds.
- No tax instrument is a panacea which can solve the challenges of avoiding future crisis.
- The traditional banking sector – as opposed to the shadow banking sector - plays an important role for the real economy, contributing to growth and employment.
- The finance sector is experiencing a wave of new regulation, supervision and demands to capital buffers whereas the shadow banking sector is not addressed at all. We do not question the need to regulate, but we question the level playing field between the traditional banking sector versus shadow banks.
- A FAT should be avoided at all cost. Ordinary finance employees are not responsible for the crisis. A FAT is effectively a tax on labour, and has thus no regulatory effect apart from being an incentive to reduce the number of employees and distort wage development. We need to bring about a shift in the tax burden from labour towards activities with strong negative externalities. We need to bring a about a shift in burdening the few – the traditional banking sector – towards equal burden sharing among all risk takers in the financial markets.
- A FTT at a very low rate and broad based (as a minimum derivatives, over-the-counter products and high risk securities) could be a solution – ideally at global level, but also in the EU as a second best solution. 8 EU countries including Finland as well as Switzerland and Taiwan have already introduced some form of transaction tax. However, the Swedish transaction tax led to large relocation effects with negative impact on the economy. FTT has the advantage of targeting all risk takers – also outside the finance

sector. We acknowledge the downsides of an FTT, but these are less harmful than the alternative of taxing labour in the finance sector, i.e. FAT. The design of an FTT is vital.

- A bank levy on the entire balance sheet, but with differentiated rates according to the type of financial institution (banks, life and pension insurance, mortgage institutions etc) should be promoted. A bank levy could serve the purpose of resolution of banks – cleaning up after financial crisis and avoiding future crisis.

Specific remarks

Fiscal consolidation efforts

Q1: Do you consider it justifiable that the revenue side of fiscal consolidation efforts of Member States are targeting the financial sector?
1. Yes, because _________
2. No, because _________
3. Cannot decide
4. Other __________
Please explain further and provide evidence, if you have any.

Q1. Answer 1:

We welcome any efforts to lessen the risk, and effects, of a future crisis. We believe that the financial sector should contribute its fair share to society on a level playing field with other sectors.

However, it should be kept in mind that the financial sector already contributes to society, both in absolute and relative terms. Beyond that, various national tax instruments and regulations are imposed on the finance sector for example the Danish FAT ("lønsumsafgift"), the Finnish transfer tax and stamp duty and the Swedish bank levy, which should be considered in order to avoid overburdening the finance sector.

Also, it should be taken into account that the traditional banking sector – as opposed to the shadow banking sector (non-deposit banks) – is an important cornerstone of the entire financial infrastructure and thus is a precondition for growth and employment. Therefore, the design and application of any tax measure should be considered carefully as not to destabilise the real economy by burdening the traditional finance sector and leaving the shadow banking sector unregulated.

The traditional banking sector in Europe is currently undergoing a heavy regulatory reform which increases the administrative and economic burden on the sector disproportionally. The shadow banking sector, on the contrary is still left unregulated and uncontrolled – and thus unburdened. We do not question the need for smarter regulation and supervision, but we question the level playing field between the traditional banking sector versus shadows banks, and the fairness when it comes to regulating the real risk takers in the financial markets. It is important that the shadow banking sector contributes to fiscal consolidation, since it has been detected by many as one of the key factors triggering the financial crisis. In other words, risk takers should at least pay for the risk they impose on society and the real economy.

When considering the design of yet another financial tax it is crucial to define the objectives of taxing the finance sector, and the right incentives to match these objectives. We believe that the objectives should be threefold. 1) Maintain stability and eliminate excessive risk taking in the financial sector. 2) Make the 'polluters pay principle' apply, i.e. make risk takers pay. 3) Generate revenue to bank resolution funds.

It is also our belief that no tax instrument is a panacea that could prevent future financial crisis; however, a tax or levy should be seen as a supplement to regulation and should primarily be seen as an incentive structure. It is important to strike the right balance between regulation, taxation and incentives.

Overall, we need to bring a about a shift in burdening the few – the traditional banking sector – towards equal burden sharing among all risk takers in the financial markets.

Q2: Do you find it problematic that Member States introduce patch-work national measures without coordination?

1. Yes, because _________

2. No, because _________

3. Cannot decide

4. Other __________

Please explain further and provide evidence, if you have any.

Q2. Answer 1:

Yes, because the financial institutions are subject to global competition apart from being faced with the challenge of having to meet the criteria of Basel III and Solvency II. They will only be able to overcome this challenge in a friction-free manner if the same conditions apply to stability efforts. We should aim at coordination at global level in the first place. As a second best solution, we should aim at coordination at European level.

Furthermore, it is important to ensure a level playing field and to avoid double taxation and taxation arbitrage. A global approach or at least European wide approach for financial taxation also has the advantage of simplifying business procedures for European financial institutions operating across borders.

Responsibility for the crisis

Q3: Do you consider that shortcomings in the governance or behaviour of financial markets or financial institutions were one of the major reasons for the financial and economic crisis?

1. Yes, entirely

2. Yes, to a great extent

3. No, just as much as the other sectors

4. No, it was due to government policies mostly

5. Cannot decide

6. Other __________

Please explain further and provide evidence, if you have any.

Q3. Answer 2:

Yes, for the most part shortcomings in governance or behaviour were certainly a key factor triggering the financial crisis, in particular:

- Bad management and ignorance of traditional banking virtues (e.g. risk spreading) in some financial institutions.
- Deregulation of financial markets, in particular the fact that the shadow-banking was allowed and neither regulated nor supervised.
- Wrong incentives rewarding excessive risk-taking and leveraging
- Misleading ratings of financial products by the five rating agencies
- Insufficient supervision and lack of sanctions by supervisors

The problem is that the entire financial sector has become the scapegoat for the bad behaviour of some parts of the sector without differentiating between the different players. The regulation, supervision, governance and behaviour of the sector as well as the effects of the crisis have differed greatly between countries as well as between continents. It has to be kept in mind when establishing tax incentives that not all financial institutions are mismanaged nor behave badly.

It is, however, vital that the financial actors, who truly support the real economy and do not take excessive risks, are not punished by paying for the crisis created by others.

Q4: Which sectors and activities within the financial sector had to do most with the crisis?

1. Investment banking

2. Insurance sector

3. Investment and pension funds

4. Alternative investment funds

5. Traditional (commercial and retail) banking

6. Cannot decide

7. Other __________

Please explain further and provide evidence, if you have any.

Q4. Answers 1, 3, 4, 5, 7:

The financial crisis had a systemic character and there is not a single explanation for its origin. Several actors and events contributed to the financial crisis as described in Q3 with investment banking being the main contributor.

-The crisis revealed extremely bad management behaviour and risk management in some traditional banks, which further fuelled the crisis. In this context it is important to stress the fact that different financial institutions and countries within Europe have been involved to a different extent.

-Politicians and regulators carry a great responsibility for deregulation and insufficient supervision.

-Investment and pension funds also carry a responsibility in terms of increasing expectations of higher yields which increases excessive risk taking and the hazardous focus on short-term profit.

Q5: Do you consider those shortcomings in the governance or behaviour of financial markets or financial institutions to be an EU-wide problem? 1. Yes, it affected all EU Member States **2. Yes, it affected most EU Member States** 3. No, it only affected some/very few EU Member States 4. No, it only affected some/very few EU Member States and spilt over to others 5. Cannot decide 6. Other _________ Please explain further and provide evidence, if you have any.

Q5. Answer 2:

Yes, bad governance and management are EU-wide problems that affected most EU countries. Bad governance in one country has effects in markets that are regional or global and thus has consequence for other countries. It is important to stress that the underlying causes of these problems differ among the Member States.

Bad management (for instance, ignorance of risk spreading and over exposure to the property market) has certainly made the situation worse in some countries. The way in which a company is affected by and, not least, the way in which it survives a crisis will in the end be the responsibility of the board of directors. This makes further demands on the competencies of the board of any financial institution. It has to be ensured that the level of competencies of the board matches the business strategy of the company and that the employees are represented.

Under/over-taxation

Q6: Do you consider the financial sector in the EU to be under-taxed (e.g. because of VAT exemption, exemption from thin capitalization rules, higher economic rent i.e. excess profits) or overtaxed (e.g. because of special additional taxes already implemented) with respect to other sectors of economic activity?

1. It is under-taxed, because it enjoys the following benefits __________

2. It is not under-taxed compared to other sectors

3. It is over-taxed, because it suffers the following additional taxation __________

4. Cannot decide

5. Other __________

Please explain further and provide evidence, if you have any.

Q.6, Answer 5:

We believe that the finance sector should contribute to society on an equal footing with other sectors of the economy. However, the finance sector is taxed differently in the various Member States, for example the Danish FAT ("lønsumsafgift"), the Finnish transfer tax and stamp duty and the Swedish bank levy, which should be taken into account to avoid overburdening the finance sector.

The shadow banking sector is unregulated, uncontrolled and undertaxed.

When considering the design of yet another financial tax it is crucial to define the objectives of taxing the finance sector, and the right incentives to match these objectives. We believe that the objectives should be threefold. 1) Maintain stability and eliminate excessive risk taking in the financial sector. 2) Make the 'polluters pay principle' apply, i.e. make risk takers pay. 3) Generate revenue to bank resolution funds.

Q7: Which sectors and/or activities within the financial sector do you think are most under-taxed/over-taxed?

1. Investment banking is under-taxed

2. Insurance sector is under-taxed

3. Alternative investment funds are under-taxed

4. Investment and pension funds are under-taxed

5. Traditional (commercial and retail) banking is under-taxed

6. Investment banking is over-taxed

7. Insurance sector is over-taxed

8. Alternative investment funds are over-taxed

9. Investment and pension funds are over-taxed

10. Traditional (commercial and retail) banking is over-taxed

11. Cannot decide

11. Other _________

Please explain further and provide evidence, if you have any.

Q.7. Answers 1 and 3:

Due to the reasons listed in Q1 the entire shadow banking system including investment banking and alternative investment funds are tax privileged and are often registered in tax havens.

4.2. Taxation as a relevant measure

Q8: What do you think of tax measures, versus regulatory measures and levies (connected to the financing of funds to ensure the proper resolution of financial institutions)?

1. Tax measures are sufficient on their own

2. Tax measures may be used for policy aspects not tackled by other measures

3. Tax measures may be used cumulatively with other measures

4. Tax measures must not be used when other measures are in place, the cumulative cost of taxes and regulation is too high

5. Tax measures shall be left to the discretion of Member States due to subsidiary concerns

6. Taxes would extract cash flow from the financial sector and reduce the ability to increase loss absorbing equity as foreseen by regulatory reforms

7. Cannot decide

8. Other _________

Please explain further and provide evidence, if you have any.

Q8. Answers 2 and 3:

Taxes, levies and regulation could be used in a combination or as complementary measures. However, the overall objective is to create the most effective incentives at the lowest possible costs for society, the sector and its employees. Many new initiatives have been taken at the EU-level as well as at the national level. The cumulative effects of these are not clear as of yet, and should be evaluated at an ongoing basis in order to strike the right balance between incentives and the cost to society, the sector and its employees.

As mentioned before no tax is a panacea. They will not solve the problem of bad behaviour or governance, but only have a dampening effect. Regulation and supervision must be in place and must be extended to cover the shadow banking system.

An FAT should be avoided at all cost. Ordinary finance employees are not responsible for the crisis.

- First, a FAT is effectively a tax on labour, and has thus no regulatory effect apart from being an incentive to reduce the number of employees and distort wage development. The Danish FAT, which was introduced in 1988, provides an interesting case in point. The relative number of hours worked in the Danish finance sector compared to the entire Danish economy dropped by 20 % from 1991 to 2001 (Birch Sørensen, 2011 'Has the FAT hampered the growth of financial sector employment?'). During the same period the banking sector business volume increased by 50,5 % (Bjarne Jensen Consult and Finansforbundet (DK), 2011). The Danish FAT falls entirely on the wage sum and excludes profits and management compensation schemes such as stock options. Also, evidence from France, which introduced an equivalent to FAT (taxes sur les salaries) in 1968, confirms the detrimental effects on wages and employment in the sector. Some French banks argue that the FAT invokes a deterrent effect on employment, i.e. wage developments in the banks show a relative decline for more than 20 years (UNI europa Finance, 2011).
- Second, a reduction in the number of finance employees could have detrimental effects on the time provided for customer care and the quality of advice giving.
- Third, FAT constitutes an unstable tax source since the FAT is an incentive to reduce the number of employees in the sector. It is in fact a vicious circle or never ending spiral having to raise the tax rate in order to make up for falling tax revenue due the reduction in the number of employees.
- Fourth, FAT could lead to higher public costs because the application of an FAT could lead to higher unemployment among finance employees in the first place, and to unemployment in general due to the link between the traditional banking sector and the real economy.
- Fifth, the FAT is administratively burdensome due to the fact that it is difficult to distinguish between the time spent on VAT exempted financial activities and financial activities subject to VAT. The tax base for the Danish FAT is gross salary paid to the employees, provided that employees are employed to work on VAT-exempted financial activities. Most financial enterprises also sell goods and services that are subject to VAT.

The salary share for these activities is not calculated in the FAT and, in practice, the distinction gives rise to uncertainty (KPMG and Finansforbundet (DK), 2011).

A bank levy on the entire balance sheet is a more viable instrument than an FAT.

- First, the total balance sheet for the financial sector as a whole is relatively stable, and will normally develop in the same direction as economic development.
- Second, enterprises have no incentive to reduce the balance sheet in order to avoid taxation like it is the case with an FAT.
- Third, a bank levy, on the contrary, entails no incentives to inflate the balance sheet unnecessarily, e.g. by explosive increases in lending/leverage. A bank levy is, therefore, regulatory in terms of behaviour and in terms of avoiding a financial crisis in the future.
- Fourth, the bank levy is relatively easy to administer, if applied on the entire balance sheet, but with differentiated rates according to the type of financial institution.

A broad based global FTT at a very low rate could be an instrument to reduce speculative financial transactions, as for example high frequency trading or transactions which are not intended to hedge a real risk. We are not blind to the shortcomings of an FTT; however, we believe the stabilising effects of an FTT would outweigh the shortcomings. In this respect, its first aim should be to provide for a sounder finance industry. As such a transaction tax would be small; it would have little effect on those activities that are directly linked to the real economy. An exporter who needs a currency hedge will have to pay a transaction tax for this, but he will need to do so only once. On the contrary, speculative activities that aim at making money out of money will have a higher trading frequency and hence pay the financial transaction tax multiple times. Furthermore, the FTT has the advantage that it taxes all actors in the market not only the traditional banking sector, and thus treats different actors differently according to the level of speculation. Generally, we lack instruments to tackle speculation. An FTT would address this.

Q9: Do you consider that an FTT or an FAT could lead to cumulative social and economic effects in combination with any of the ongoing regulatory reforms in the financial sector, including the banking levy (see COM 2010(301)final)?

1. Yes, because__________

2. No, because__________

3. Cannot decide

4. Other

Please explain further and provide evidence, if you have any.

Q9. Answer 1:

Yes, we believe that there will be social and economic effects of any tax and regulatory measure. Again, the design and mix is crucial. In designing the right mix the incentives and the consequences should be considered very carefully. As a rule of thumb, it must be ensured that a tax has the least possible impact on growth and employment. This implies avoiding the FAT as an instrument, since it is a tax on labour. (See Q8). A tax on labour would put pressure on employment and salary negotiations in the sector, and could therefore, not be seen as a stable tax revenue. An FAT risks triggering a vicious circle of having to raise the tax rate to make up for lost revenue when employment and/or salaries in the sector fall (e.g. the Danish FAT has increased six times since it was introduced in 1988). An FAT would not address the policy objectives of regulating behaviour nor risk taking. An FAT is, yet again, a tax on the traditional banking sector, which is currently coming to terms with the ongoing regulatory reforms including regulation on remuneration in the finance sector.

A level playing field and fairness must be the guiding principles extending the regulation to also cover the shadow-banking sector which currently operate free from any regulation and supervision. See also Q1.

4.3. Financial transaction tax (FTT)

Q10: At what level do you think that the FTT will be most effective?

1. EU level, because there may never be a G20 agreement and the EU must lead by example

2. Global level, because otherwise the trade relocation incentives would be rather big

3. The FTT will not be effective at any level because _________

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q10. Answer 2:

A global level FTT is certainly the most effective. The second best solution to a global FTT is an EU FTT, but kept at a very low or moderate level in order to avoid offshoring of jobs out of the EU. A national transaction tax will most likely lead to large relocation effects with negative consequences for the sector and the real economy in the EU. In 1983 Sweden implemented a transaction tax on securities. Much of the trade moved abroad, specifically to London. 1,5 billion SEK in tax revenue was expected but the result was 80 million SEK. In 1991 the tax was abolished. Today, the financial markets are even more global in their nature and Europe's financial markets are challenged by existing and emerging markets in other regions. However, different types of transactions taxes already do exist in eight EU countries as well as in Taiwan and Switzerland. This shows that with the right design, a relocation effect could be diminished.

Q11: Do you think that a broad based financial transaction tax is a viable instrument?

1. Yes, because it has the potential to provide substantial revenues (fair and substantial contribution)

2. Yes, but a broad based financial transaction tax must exclude (certain) currency transactions in order to comply with the free movement of capital

3. No, because in case of an FTT implemented at EU level only the transactions will simply move outside the EU, hurting EU competitiveness

4. No, because the impacts on markets (e.g. liquidity, volatility) are not predictable

5. No, because this shall be addressed by changing the VAT rules for the financial sector

6. Cannot decide

7. Other _________

Please explain further and provide evidence, if you have any.

Q11. Answer 7:

Yes, a broad based FTT could be a viable instrument to address speculation and ensure price stability. A broad tax base would ensure that all risk takers both inside and outside of the financial sector make an adequate contribution.

The design should take the real risk exposure of different types of products into account. Thus, the FTT should as a minimum include derivatives, OTC transactions and most securities. See also Q15 and Q16 with regard to exemptions.

Q12: What do you consider as an appropriate connecting factor for the place of levying of the tax?

1. The place of trading, because it is easy to collect (but with potential for relocation issues)

2. The place where the seller of the instrument is established (but with collection issues)

3. The place where the buyer of the instrument is established (but with collection issues)

4. The places where the buyer and the seller of the instrument are established would tax each by ½ of the rate (somewhat complicated, but addressing issues of swaps for example)

5. The place where the initial issuer is established (not always disposing of the info)

6. The place where the financial intermediary of the buyer/seller is established

7. Cannot decide

8. Other (including a combination of the above) _________

Please explain further and provide evidence, if you have any.

Q12. Answer 7.

Q13: Do you think that the value set for the underlying is (in general) a correct tax base for derivatives?

1. Yes, because the investors' returns are based on it allowing substantial leverage

2. Yes, because the great part of/all such derivatives are speculative transactions and shall bear substantially higher tax.

3. Yes, because there is no other reference value for some derivatives (e.g. forwards, swaps, etc.)

4. No, because the tax as related to the investment is disproportionate and will close that legitimate business without producing the revenues expected.

5. No, because derivatives are often used for risk hedging purposes and that does not deserve a disproportionate tax burden

6. Cannot decide

7. Other (including a combination of the above) _________

Please explain further and provide evidence, if you have any.

Q13. Answer 3:

Yes, under normal circumstances, the value of the underlying instrument also seems to give a coherent tax base. Unless a derivative has a reference value that reflects the economic realities better than the value of the underlying instruments, it seems to be the underlying value that provides the most correct base for taxation

Q14: Do you consider that there would be a risk of financial engineering around the broad-based or narrow-based FTT that would undermine the objectives of the measure?

1. Yes, there is such a risk to the narrow-based FTT and it relates to the following _________

2. Yes, there is such a risk to the broad-based FTT and it relates to the following _________

3. No, there is no such a risk, because _________

4. Cannot decide

5. Other (including a combination of the above) _________

Please explain further and provide evidence, if you have any.

Q14. Answers 1, 2:

Tax evasion and financial engineering exist even without an FTT in place. Again, no tax is a panacea. A global implementation will, however, make it increasingly more cumbersome to avoid the FTT. A broad based FTT at a very low rate may in itself - have a reducing effect on tax evasion models, seeing that the creation and running of “creative” FTT free trading models also carry costs.

Q15: What do you think of the FTT designed as a cumulative tax, i.e. every subsequent sale is taxed at the full amount of the transaction without any deduction of previously paid FTT?

1. It is justified, because this will target exactly the short-term speculative trading

2. It is justified, because it is an easy approach (less administrative burden) and the rate of the tax is very low

3. It is not justified, because not all short-term trading is speculative

4. It is not justified, because this will hinder the liquidity of the markets

5. Cannot decide

6. Other _________

Please explain further and provide evidence, if you have any.

Q15. Answer 6:

One of the reasons for establishing an FTT is to tax short-term speculative trading. However, the model could be designed in such a way that FTT on certain types of non speculative short-term trading is exempted or mitigated.

Q16: Would there be a need for specific exemption of certain transactions from the FTT or an exemption threshold?
1. Yes, the FTT must exempt the following transactions _________
2. Yes, the FTT must exempt transactions below the following threshold _________
3. There is no need to exempt any transactions
4. Cannot decide
5. Other _________
Please explain further and provide evidence, if you have any.

Q16. Answer 1:

The design of an FTT is important and should ensure a level playing field between smaller and major currencies. As a general rule of thumb, exemptions should include transactions that are non speculative, for instance:

☐Some securities, since not all asset backed securities are high risk and speculative instruments, some are very stable and low-risk (e.g. bonds for house financing).

Q17: Do you think FTT rates should be differentiated depending on the type of product traded?
1. Yes, because _________
2. No, because _________
3. Cannot decide
4. Other _________
Please explain further and provide evidence, if you have any.

Q17. Answer 4:

There could be a point in differentiating according to how speculative and risky a product is. However, this should be balanced against the administrative inconvenience and costs. If a differentiation is made, it should be as simple and intuitively understandable as possible.

Q18: Do you think that the tax incidence of the tax will fall on the financial sector, or will it be shifted to the customers?

1. It will fall on the financial sector because _________

2. It will be shifted to the middle class customers because _________

3. It will be shifted to the high net worth customers because _________

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q18. Answers 1, 2 and 3:

First, any tax is likely to be passed on to customers. At least part of an FTT will be passed on to the customers, e.g. by way of adjustment of fees. However, the size of transaction fees is a competition parameter, and thus some part of an FTT may fall on the sector. A tax will lower the number and size of transactions, everything else being equal, and thus lower the revenue of the sector.

Q19: What do you think of the administrative costs related to the broad-based FTT?

1. They will be comparatively low, because _________

2. They will be comparatively high, because _________

3. Cannot decide

4. Other _________

Do you think that it would be the same for a narrow-based FTT?

1. Yes, because _________

2. No, because _________

Please explain further and provide evidence, if you have any.

Q19. Answer 3.

Q20: What do you think of the effect on employment from broad-based FTT? 1. It will have an overall negative effect on employment and/or remuneration in the financial sector and the economy as a whole 2. It will have a negligible effect on employment and/or remuneration in the financial sector and no effect on the economy as a whole 3. It will have an overall negative effect on employment and/or remuneration in the financial sector, but the financial sector is already bigger than it should be and the qualified workforce will benefit the non-financial sector 4. It will have an overall positive effect on employment because _________ 5. In case the FTT is not globally implemented, qualified workforce will benefit companies/branches in non-taxing countries 6. Cannot decide **7. Other _________** Do you think that it would be the same for a narrow-based FTT? 1. Yes, because _________ **2. No, because _________** Please explain further and provide evidence, if you have any.

Q20. Answer 7:

The employment effect is hard to predict. A national transaction tax will most likely lead to large relocation effects with significant negative consequences for the sector and the real economy in the EU. In 1983 Sweden implemented a transaction tax on securities. Much of the trade moved abroad, specifically to London. 1,5 billion SEK was in tax revenue was expected but the result was 80 million SEK. In 1991 the tax was abolished. Today, the financial markets more global and Europe's financial markets are challenged by existing and emerging markets in other regions.

But assuming that a well designed FTT at a very low rate is combined with efforts to prevent evasion and disseminate the FTT geographically as far as possible, the effect on employment may, all in all, be more or less neutral.

Narrow-based FTT:

Answer 2: The employment effect will be less prominent with fewer products made FTT taxable.

Q21: What do you think of the effect on small and medium enterprises (SMEs) from broad-based FTT? 1. It will have an overall negative effect SMEs because _________ 2. It will have a negligible effect on SMEs because _________ 3. It will have an overall positive effect on SMEs because _________ **4. Cannot decide** 5. Other _________ Do you think that it would be the same for a narrow-based FTT? 1. Yes, because _________ 2. No, because _________ Please explain further and provide evidence, if you have any.

Q21. Answer 4.

4.4. Financial activities tax (FAT)

Q22: At what level do you think that the FAT will be most effective? 1. EU level, because there may never be a G20 accord and the EU must lead by example 2. At least G20 level, because otherwise the activities/profits relocation incentives would be rather big **3. The FAT will not be effective at any level because _________** 4. Cannot decide 5. Other _________ Please explain further and provide evidence, if you have any.

Q22. Answer 3:

The FAT will not be effective at all. If the objective is to regulate risk behaviour and to prevent another crisis, the FAT would certainly not be effective.

A FAT should be avoided at all cost. Ordinary finance employees are not responsible for the crisis.

- First, an FAT is effectively a tax on labour, and has thus no regulatory effect apart from being an incentive to reduce the number of employees and distort wage development. Relocation effects will be even higher than those related to an FTT since the tax focuses on the activity within companies who will have a big incentive to offshore activities outside the EU. The Danish FAT, which was introduced in 1988, provides an interesting case in point. The relative number of hours worked in the Danish finance sector compared to the entire Danish economy dropped by 20 % from 1991 to 2001 (Birch Sørensen, 2011 'Has the FAT hampered the growth of financial sector employment?'). During the same period the banking sector business volume increased by 50,5 % (Bjarne Jensen Consult and Finansforbundet (DK), 2011). The Danish FAT falls entirely on the wage sum and excludes profits and management compensation schemes such as stock options. Also, evidence from France, which introduced an equivalent to FAT (taxes sur les salaries) in 1968, confirms the detrimental effects on wages and employment in the sector. Some French banks argue that the FAT invokes a deterrent effect on employment, i.e. wage developments in the banks show a relative decline for more than 20 years (UNI europa Finance, 2011))
- Second, a reduction in the number of finance employees could have detrimental effects on the time provided for customer care and the quality of advice giving.
- Third, FAT constitutes an unstable tax source since the FAT is an incentive to reduce the number of employees in the sector. It is in fact a vicious circle or never ending spiral having to raise the tax rate in order to make up for falling tax revenue due the reduction in the number of employees.
- Fourth, FAT could lead to higher public costs because the application of an FAT could lead to higher unemployment among finance employees in the first place, and to unemployment in general due to the link between the traditional banking sector and the real economy.
- Fifth, the FAT is administratively burdensome due to the fact that it is difficult to distinguish between the time spent on VAT exempted financial activities and financial activities subject to VAT. The tax base for the Danish FAT is gross salary paid to the employees, provided that employees are employed to work on VAT-exempted financial activities. Most financial enterprises also sell goods and services that are subject to VAT. The salary share for these activities is not calculated in the FAT and, in practice, the distinction gives rise to uncertainty (KPMG and Finansforbundet (DK), 2011).

- Sixth, an FAT is disadvantaged by the fact that there are no internationally harmonised accounting standards to establish the calculation base for an FAT, i.e. the wage sum, in contrast to for instance a bank levy.

If an FAT is introduced at EU level then all national FATs should be repealed in order to avoid double taxation.

A levy on the entire balance sheet is a more viable instrument than an FAT.

- First, the total balance sheet for the financial sector as a whole is relatively stable, and will normally develop in the same direction as economic development.
- Second, enterprises have no incentive to reduce the balance sheet in order to avoid taxation like it is the case with an FAT.
- Third, a bank levy, on the contrary, entails no incentives to inflate the balance sheet unnecessarily, e.g. by explosive increases in lending/leverage. A levy is, therefore, regulatory in terms of behaviour and in terms of avoiding a financial crisis in the future.
- Fourth, the levy is relatively easy to administer, if applied on the entire balance sheet, but with differentiated rates according to the type of financial institution.

Q23: What is your opinion of the industry scope of the FAT?

1. It must encompass strictly only the banking sector since it was mainly responsible for the crisis

2. It must encompass strictly only the banking sector because ________

3. It must encompass the financial sector defined broadly in order to keep the level playing field and prevent a substitution effect

4. It must encompass the financial sector defined broadly because ________

5. Cannot decide

6. Other _________

Please explain further and provide evidence, if you have any.

Q23, Answer 6:

The FAT is detrimental to employment and growth, and should be avoided altogether. See answers to Q8, Q9 and Q22.

Q24: Which form of FAT do you consider most appropriate?

1. Addition method FAT because _________

2. Rent-taxing FAT because _________

3. Risk-taxing FAT because _________

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q24. Answer 5:

The FAT is not appropriate at all. The FAT is detrimental to employment and growth, and still only targets the traditional banking sector. See answers to Q8, Q9 and Q22.

Q25: What are the major difficulties with the three forms of FAT?

1. Addition method FAT has the following difficulties _________

2. Rent-taxing FAT has the following difficulties _________

3. Risk-taxing FAT has the following difficulties _________

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q25. Answer 5:

The three forms of FAT are all a tax on labour and thus hamper employment and growth. Addition method FAT is the most detrimental, followed by rent-taxing and then risk-taxing FAT. See answers to Q8, Q9 and Q22.

Q26: What do you consider the most appropriate starting point for the addition method FAT?

1. The net profit or loss from the income statement amended with _________

2. The cash flows of all activities amended with _________

3. The accounting rules for the different economic operators in the financial sector, even within a single Member State, are rather diverging to rely upon because _________

4. The accounting rules for the financial sector across Member States are rather diverging to rely upon because_________

5. Cannot decide

6. Other _________

Please explain further and provide evidence, if you have any.

Q26. Answer 6:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25.

Q27: What do you consider the most appropriate starting point for rent-taxing and risk taxing FAT?

1. The net profit or loss from the income statement amended with _________

2. The corporate income tax base from the income statement

3. A harmonised corporate income tax base

4. The accounting rules for the different economic operators in the financial sector, even within a single Member State, are rather diverging to rely upon because _________

5. The accounting rules for the financial sector across Member States are rather diverging to rely upon because_________

6. The corporate income tax rules for the different economic operators in the financial sector, even within a single Member State, are rather diverging to rely upon because _________

7. The corporate income tax rules for the financial sector across Member States are rather diverging to rely upon because_________

8. Cannot decide

9. Other _________

Please explain further and provide evidence, if you have any.

Q27. Answer 9:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25.

Q28: Do you consider individual or consolidated statements as more appropriate?

1. Consolidated statements (as per IAS 27) are more appropriate, because _________

2. Individual statements are more appropriate, because _________

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q28. Answer 4:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25.

Q29: Would there be a need for specific exemption of certain profit/remuneration from the FAT?

1. The addition method FAT must exempt the following profit/remuneration _________

2. The rent-taxing FAT must exempt the following profit/remuneration _________

3. The risk taxing FAT must exempt the following profit/remuneration _________

4. There is no need to exempt any profit/remuneration

5. Cannot decide

6. Other _________

Please explain further and provide evidence, if you have any.

Q29. Answer 6:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25

Q30: The state of the head office or group headquarters may tax on the basis of consolidated statements and the state of the branches or group members may also tax those. What do you consider as a suitable solution?

1. Bilateral specific agreements

2. A system of credits must be embedded in the provisions

3. A formulary apportionment must be embedded in the measure

4. Only domestic inflows and/or outflows must be taken into consideration

5. Cannot decide

6. Other _________

Please explain further and provide evidence, if you have any.

Q30. Answer 6:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25

Q31: Due to the way the tax base in a FAT is derived (their accounting treatment and/or the subsequent adjustment), do you consider that one or more of the following items will be unduly disadvantaged//favoured:

(i) financial instruments;

(ii) activities;

(iii)remuneration packages?

1. Certain financial instruments will be disadvantaged because _________

2. Certain activities will be disadvantaged, because _________

3. Certain remuneration packages will be disadvantaged, because _________

4. Certain financial instruments will be favoured because _________

5. Certain activities will be favoured, because _________

6. Certain remuneration packages will be favoured, because _________

7. Cannot decide

8. Other _________

Please explain further, detailing the financial instruments, activities and remuneration packages that you considered above and provide evidence, if you have any.

Q31. Answer 8:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25

Q32: Would the addition-method FAT need to be aligned with the current VAT system to avoid the cascading effect from the interaction between the two?

1. Yes, because it is meant to compensate for the VAT exemption, but the financial sector will still bear the input VAT burden and the alignment shall be done in the following way _________

2. No, it is not practical to align it, because of the of the different nature of the taxes_________

3. No, it is not practical to align it, because of not being able to attribute the FAT per transaction and _________

4. No, it is not practical to align it, because _________

5. Cannot decide

6. Other _________

Please explain further and provide evidence, if you have any.

Q32. Answer 6:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25

Q33: Could a FAT rate well below the current standard VAT rate reduce distortions that might arise from missing interaction between VAT and addition-method FAT?

1. Yes, because _________

2. No, because _________

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q33. Answer 4:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25

Q34: Do you think that the tax incidence of the tax will fall on the financial sector, or it will be shifted to the customers?

1. It will fall on the financial sector because _________

2. It will be shifted to the middle class customers because _________

3. It will be shifted to the high net worth customers because _________

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q34. Answer 5:

The FAT is a tax on labour and should be avoided. See answers to Q8, Q9 and Q22-Q25. The FAT falls primarily on employees in the sector in terms of the built-in incentives to reduce the number of employees and putting pressure on wages. It is reasonable to assume that at least part of the burden would fall on the customers in the long run.

Q35: What do you think of the administrative costs related to the FAT?

1. They will be comparatively low, because _________

2. They will be comparatively high, because _________

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q35. Answer 2:

The FAT is administratively burdensome due to the fact that it is difficult to distinguish between the time spent on VAT exempted financial activities and financial activities subject to VAT. See also answer to Q8. The costs will be comparatively high, in particular for FAT2 and FAT3 due to the relatively smaller revenue generated.

Q36: What do you think of the effect on employment from the FAT?

1. It will have an overall negative effect on employment and/or remuneration in the financial sector and will therefore be bad for the economy

2. It will have a negligible effect on employment and/or remuneration in the financial sector and no effect on the economy as a whole

3. It will have an overall negative effect on employment and/or remuneration in the financial sector, but the financial sector is already bigger than it should be and the qualified workforce will benefit the non-financial sector

4. It will have an overall positive effect on employment because _________

5. Qualified workforce will benefit companies/branches in non-taxing countries

6. Cannot decide

7. Other _________

Please explain further and provide evidence, if you have any.

Q36. Answer 1:

Yes, the FAT will have an overall negative effect on employment and remuneration, because it is effectively a tax on labour. See answers to Q8, Q9 and Q22-Q25

Q37: What do you think of the effect on small and medium enterprises (SMEs) from FAT?

1. It will have an overall negative effect SMEs because _________

2. It will have a negligible effect on SMEs because _________

3. It will have an overall positive effect on SMEs because _________

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q37. Answer 1:

An FAT will have an overall negative effect on SMEs, since it is yet another burden on the traditional banking sector, which provides services to the real economy. The growth and employment will be negatively affected by an FAT. They will be at a disadvantage to larger enterprises which can pass the effect onto the employees and the customers to a larger extent. See answers to Q8, Q9 and Q22-Q25.

4.5. Cumulative effects with other measures – especially bank levies and regulatory measures

Q38: At what level do you think that the levy will be most effective?
1. EU level, because there may never be a G20 accord and the EU must lead by example
2. At least G20 level, because otherwise the relocation incentives would be rather big
3. The levy will not be effective at any level because _________
4. Cannot decide
5. Other _________
Please explain further and provide evidence, if you have any.

Q38. Answer 1:

A global bank levy would be the preferred option, but is currently not realistic. Therefore, an EU wide bank levy should be promoted. However, the EU and national level are also feasible as relocation effects of a bank levy are limited at all events (cf. IMF, June 2010). A bank levy is a much better alternative to a FAT since it addresses risk and regulates behaviour.

A levy on the entire balance sheet is a more viable instrument than an FAT. First, the total balance sheet for the financial sector as a whole is relatively stable, and will normally develop in the same direction as economic development. Second, enterprises have no incentive to reduce the balance sheet in order to avoid taxation like it is the case with an FAT. Third, a bank levy, on the contrary, entails no incentives to inflate the balance sheet unnecessarily, e.g. by explosive increases in lending/leverage. A bank levy is, therefore, regulatory in terms of behaviour and in terms of avoiding a financial crisis in the future. Fourth, the bank levy is relatively easy to administer, if applied on the entire balance sheet, but with differentiated rates according to the type of financial institution.

Q39: What is your opinion of the industry scope of the levy? 1. It must encompass strictly only the banking sector since it was mainly responsible for the crisis 2. It must encompass strictly only the banking sector since the balance sheet concepts for risk-weighted assets and Tier 1 capital are not applicable to other parts of the financial sector 3. It must encompass strictly only the banking sector because ________ **4. It must encompass the financial sector defined broadly in order to keep the level playing field and prevent a substitution effect** 5. It must encompass the financial sector defined broadly because ________ 6. Cannot decide 7. Other _________ Please explain further and provide evidence, if you have any.

Q39. Answer 4:

A bank levy must encompass the financial sector defined broadly in order to keep the level playing field and prevent a substitution effect. The broad scope should include the shadow banking sector (incl. funds and alternative investment funds, etc.). The bank levy should be applied with differentiated rates according to the type of financial institution as well as the risk it entails (banks, life and pension insurance, mortgage credit institutions, investment banks, alternative investment funds, and other funds) in order ensure a level playing field.

Q40: What is your perception of the risk exposure for the financial sector? 1. It mostly referred to investment in risky assets and_________ 2. It mostly referred to financing by "risky" (uninsured) liabilities and _________ 3. Cannot decide **4. Other _________** Please explain further and provide evidence, if you have any.

Q40. Answer 4:

Both risky assets and liabilities are part of the risk exposure for a financial sector.

Q41: Therefore, which form of levy do you consider most appropriate?

1. Asset-based FST because _________

2. Liabilities-based FST because _________

3. A combination of asset-based and liabilities-based FST because

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q41. Answer 5:

A bank levy should be applied to the entire balance sheet - because this is easier to administer - with differentiating rates according to the type of financial institution, See Q8 and Q39

It would be too administratively burdensome to differentiate between asset and liability based bank levy.

Q42: What are the major difficulties with the two forms of levy?

1. An asset-based levy has the following difficulties _________

2. A liabilities-based levy has the following difficulties _________

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q42. Answer 4:

The remarks in Q41 apply.

Q43: What do you consider the most appropriate starting point for the asset-based levy?

1. The balance sheet assets side amended with _________

2. The accounting rules for the different economic operators in the financial sector, even within a single Member State, are rather diverging to rely upon because _________

3. The accounting rules for the financial sector across Member States are rather diverging to rely upon because_________

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q43. Answer 5:

The bank levy should be applied to the entire balance sheet. See answers to Q8 and Q39.

Q44: What do you consider the most appropriate starting point for the liabilities-based levy?

1. The balance sheet liabilities side amended with _________

2. The accounting rules for the different economic operators in the financial sector, even within a single Member State, are rather diverging to rely upon because _________

3. The accounting rules for the financial sector across Member States are rather diverging to rely upon because_________

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q44. Answer 5:

The bank levy should be applied to the entire balance sheet. See answers to Q8 and Q39.

Q45: Would there be a need for specific exemption of certain assets/liabilities from the FST?

1. The asset-based levy must exempt the following assets _________

2. The liabilities-based levy must exempt the following liabilities _________

3. There is no need to exempt any assets

4. There is no need to exempt any liabilities

5. Cannot decide

6. Other _________

Please explain further and provide evidence, if you have any.

Q45. Answers 3 and 4:

The bank levy should be applied to the entire balance sheet, it would be too administrative burdensome to exempt any assets/liabilities. See answers to Q8 and Q39.

Q46: Would there be a need for a threshold (i.e. the levy is levied only on financial institutions with large balance sheets) or allowance (i.e. for all financial institutions there would be a "tax-free" allowance for a certain amount of assets/liabilities) from the levy?

1. Yes, there must be a threshold for the levy _________

2. Yes, there must be an allowance for the levy _________

3. There is no need for a threshold or an allowance

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q46. Answer 3:

We see no reason to make exemptions, due to administrative reasons, and due to the fact that it can be taken into consideration when deciding the rate of the levy

Q47: Do you consider individual or consolidated statements as more appropriate?

1. Consolidated statements (as per IAS 27) are more appropriate, because _________

2. Individual statements are more appropriate, because _________

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q47. Answer 3:

The guiding principle must be to ensure transparency, fairness and avoid double taxation.

Q48: The state of the head office or group headquarters may tax on the basis of consolidated statements and the state of the branches or group members may also tax those. What do you consider as a suitable solution?

1. Bilateral specific agreements

2. A system of credits by the Member State of the group/head office must be embedded in the provisions (credit method in the home Member State, because the risk is borne by the host market)

3. A system of credits by the Member State of the branch/subsidiary must be embedded in the provisions (reverse credit method in the host Member State, because the risk is borne by the home market)

4. A system of exemption by the Member State of the group/head office must be embedded in the provisions (exemption method in the home Member State, because the risk is borne by the host market)

5. A system of exemption by the Member State of the branch/subsidiary must be embedded in the provisions (reverse exemption method in the host Member State, because the risk is borne by the home market)

6. A formulary apportionment must be embedded in the measure

7. Cannot decide

8. Other _________

Please explain further and provide evidence, if you have any.

Q48. Answer 7:

The guiding principle must be to ensure transparency, fairness and avoid double taxation.

Q49: What would be the solution for attribution of assets/liabilities to bank branches (not subsidiaries)?

1. The authorised OECD approach for attribution of assets/liabilities must be used

2. A modified approach taking into consideration only taxable assets/liabilities must be used

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q49. Answer 3.

Q50: Since some Member States have already implemented such levies, which are different in their features, what do you think the interaction should be with those levies?

1. All individual levies/taxes based on the balance sheet must be repealed

2. All individual levies based on the balance sheet must allow for a credit for the EU-wide levy

3. The national and EU-wide levy may coexist

4. Cannot decide

5. Other _________

Please explain further and provide evidence, if you have any.

Q50. Answer 2:

The levies are of different types and sizes and to some extent interconnected with the national company tax systems and other regulations. Therefore, it seems right to allow for a credit for the EU-related levy

As a second best solution, repeal of national levies could also be possible.

Q51: Due to the way the tax base in a levy is derived (their accounting treatment and/or the subsequent adjustment, do you consider that one or more of the following items will be unduly disadvantaged/favoured:

(i) investments;

(ii) financing means;

(ii) activities in general?

1. Certain investments will be disadvantaged, because _________

2. Certain financing means will be disadvantaged, because _________

3. Certain activities will be disadvantaged, because _________

4. Certain investments will be favoured because _________

5. Certain financing means will be favoured because _________

6. Certain activities will be favoured, because _________

7. Cannot decide

8. Other _________

Please explain further, detailing the investments, financing means, and activities that you considered above and provide evidence, if you have any.

Q51. Answer 7.

Q52: Some authors argue that overnight secured credit (through repos mainly) necessitates special treatment of those types of funding because of the cheap, but unstable funding leading to systemic risk. Do you agree to such an argument and if so, what treatment do you suggest?

1. Yes, because _________

2. No, because _________

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q52. Answer 3.

Q53: Would there be a necessity for a harmonization of certain accounting concepts (e.g. creation of provisions/reserves, netting of derivatives and other related positions) and to what extent?

1. Yes, because _________

2. No, because _________

3. Cannot decide

4. Other _________

Please explain further and provide evidence, if you have any.

Q53. Answer 3.

Q54: Do you think that the incidence of the levy will fall of the financial sector, or it will be shifted to the customers?
1. It will fall on the financial sector because _________
2. It will be shifted to the middle class customers because _________
3. It will be shifted to the high net worth customers because _________
4. Cannot decide
5. Other _________
Please explain further and provide evidence, if you have any.

Q54. Answers 1,2 and 3:

It is likely that at least part of a levy will be passed on to the customers, e.g. by way of adjustment of fees. However, most of the effect of a levy will fall on the sector.

Q55: What do you think of the administrative costs related to the levy?
1. They will be comparatively low, because _________
2. They will be comparatively high, because _________
3. Cannot decide
4. Other _________
Please explain further and provide evidence, if you have any.

Q55. Answer 1

The administrative costs of a bank levy will be comparatively lower than those associated with a FTT and especially a FAT. See answer to Q8.

Q56: What do you think of the effect on employment from the levy? 1. It will have an overall negative effect on employment and/or remuneration in the financial sector and the economy in general **2. It will have a negligible effect on employment and/or remuneration in the financial sector and no effect on the economy as a whole** 3. It will have an overall negative effect on employment and/or remuneration in the financial sector, but the financial sector is already bigger than it should be and the qualified workforce will benefit the non-financial sector **4. It will have an overall positive effect on employment because _________** 5. Qualified workforce will benefit companies/branches in non-taxing countries 6. Cannot decide 7. Other _________ Please explain further and provide evidence, if you have any.

Q56. Answers 2 and 4:

There are reasons to assume that the impact on employment of a bank levy will be more or less neutral due to its behavioural aspects (stabilising effect) as well as the fact that the relocation effect is negligible (IMF June 2010). The Swedish experience is that it most likely saved jobs both in the short term both within the sector and in the economy as a whole. In the long term the decreased risk and effects of future financial crisis is beneficial to the employment in the financial sectors as well as in every other sector. See also answer to Q8.

Q57: What do you think of the effect on small and medium enterprises (SMEs) from the levy? 1. It will have an overall negative effect SMEs because _________ 2. It will have a negligible effect on SMEs because _________ 3. It will have an overall positive effect on SMEs because _________ 4. Cannot decide **5. Other _________** Please explain further and provide evidence, if you have any.

Q57. Answer 5:

If applied on the entire balance sheet there could be reason to assume that it would have negligible effect on SMEs. Large enterprises would not receive a competitive advantage relative to SMEs

Please include any further comments below, in particular, but not limited to the definition of the problem, other policy options or tax design features and impacts.

About NFU

Nordic Financial Unions (NFU) is an organisation for co-operation between trade unions that organise employees in the banking, finance and insurance sectors in the five Nordic countries. At present, eight trade unions are affiliated to the NFU; two in Denmark, two in Finland, two in Sweden, and one in each Iceland and Norway. Through these trade unions, NFU represents 160 000 employees in the Nordic financial market.

Yours faithfully,

Nordic Financial Unions (NFU)

Jorunn Berland

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