# Breakthrough for the Financial Transaction Tax

The EU Commission has announced a draft directive for the FTT beginning October. The cornerstones of the proposal are the following:

**Tax base:** shares, bonds, derivatives.

However, currency transactions at the spot market would be exempted, while derivatives of currency transactions would be taxed. This would narrow the tax basis. The total turnover on the currency market is approx. four trillion USD per day, out of which 1,5 trillion are spot market transactions.

**Tax rate:** 0,1% for shares and bonds, 0,01 for derivatives.

**Expected revenues:** 50 bn. Euro (68,5 bn. USD)

**Imposition:** Via electronic platforms. The so called *accrual rule* should be used. This means that each single transaction is taxed in real time, as soon as it starts (*Gross Real Time Settlement*). This procedure has the advantage that the tax is not levied at the point of netting at the end of a trading day.

The *accrual rule* will hit particularly high frequency trade. If the computer makes one thousand transactions during a day, the tax will have to be paid one thousand times.

**Avoidance:** The home country rule will be used. This means that each transaction in which a EU based seller or buyer is involved, will be charged. Even if the partner is based in Barbados, New York or – in case the UK does not join the proposal – London, the tax will be levied. This means, that it does not help to transfer a deal outside Europe. One would have to leave the EU to avoid the tax.

**Use of revenues:** At last a part of the revenues should go to the EU.

**Implementation**: 2014

**Area:** The FTT should be implemented in the EU as a whole. However, if the UK (and Sweden et al.) continue to reject the FTT, the Euro-zone is considered, or the area of so called *enhanced cooperation.* This is a procedure, where at last nine member states can agree something in a kind of *coalition of the willing.* This model is for instance used for the infamous *Schengen* A*greement* on migration).

**General assessment**: The draft is a break through. WEED has been engaged in favour for such a tax since 1998. The EU initiative is a big success for civil society. In some points the agreement goes even further than expected.

However, there are still weak points. The most important is the issue of use of the revenues. If we want to get at least a share of the money for development and environment a lot of pressure is still needed.

Further drops of bitterness are:

- the exemption of spot market currency transactions,
- the low tax rate for derivatives.

Finally, there will be still a strong need for pressure in favour of the euro-zone option, which is preferable to the *enhanced cooperation*.

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