Federation of European Accountants
Fédération des Experts comptables Européens

European Commission
Directorate-General for
Taxation and Customs Union
Rue de Spa 3, Office 06/31
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19 April 2011

Re: DTA/ITA/PWE/GCA/MBR

Dear Sir or Madam,

Re: European Commission's Consultation on financial sector taxation

FEE (the Federation of European Accountants) is pleased to provide you with its comments on the European Commission's Consultation on financial sector taxation. FEE's ID number on the European Commission's Register of Interest Representatives is 4713568401-18[1].

1. FEE has considered the European Commission's consultation on the taxation of the financial sector, which primarily results from the last global economic and financial crisis. The financial sector, governments and tax payers have had to bear a very significant burden, which in turn has made fiscal consolidation imperative in many jurisdictions.

At present various models of financial sector taxation are being discussed at a European level.

It needs to be carefully assessed whether introducing new taxes or levies would be the appropriate measure at a moment where the European economy is gradually recovering. Taking into account that both indirect and direct taxes usually end up at consumer level, new taxes could slow down the recovery.

[1] FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

Furthermore, the stages of economic recovery vary broadly across Europe. New EU-wide taxes would, by nature, not take these differences into account. As a result, economies might drift further apart, which would not necessarily help the EU to become a smart, sustainable and inclusive economy (EU 2020).

2. In general the suggestions outlined in the European Commission's consultation and in the preceding communication[2] try to aim at raising additional revenue, contributing to financial sector regulation (with a view to avoid future crisis) and modifying the behaviour of the respective financial markets players. Opinions differ, whether these aims should be targeted by the means of taxation and whether they are likely to be achieved. It is also unclear whether different parts of the financial sector, i.e. banks and insurance, can be lumped together, since they played a different role in the past crisis and different business model expose them to different risks.

The introduction of additional taxes or levies should not be considered on a stand alone basis, but in a holistic way. It should also be noted that a number of Member States have already introduced, or are introducing, various bank levies. Therefore the potential for double-taxation should also be carefully examined.

It is probable that the implementation of additional taxes or levies for the financial sector would lead to price increases for financial services, e.g. affecting the costs of financing for SMEs. Looking at an international level, new EU-wide taxes might also have the potential to place the EU at a competitive disadvantage in comparison to those non-EU areas where no such new taxes are introduced. Maintaining a world-wide level playing field (as suggested at the G-20 Toronto Summit) would be challenging in case the idea of such new taxes should be further considered.

Furthermore, there is a need to investigate whether taxing one specific sector – no matter which sector – would be in line with the fundamental principles of taxation. Tax systems should be equitable, efficient, simple, transparent, effective and provide certainty. Equity in this context means that taxpayers in the same economic circumstances should receive equal treatment[3]. Taxing one specific sector of the economy with a tax that does not apply to other sectors, does not appear to meet this requirement.

A number of measures have already been taken, or are in progress, which are designed to penalise excessive risk-taking behaviour, enhance the efficiency of financial markets and reduce their volatility. Before using taxation as a means to influence behaviour, which should only be done in exceptional cases, it should be examined whether those other measures are efficient and sufficient.

3. Finally, the interaction between such new taxes or levies for the financial sector and the existing financial markets regulation should also be assessed. In this case, as in others, the impact assessment to be carried out by the Commission will be of particular importance and should include an in-depth holistic cost-benefit analysis.

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[2] European Commission Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Central Bank, "An EU Framework for Crisis Management in the Financial Sector", 20 October 2010
http://ec.europa.eu/internal_market/bank/docs/crisis-management/framework/com2010_579_en.pdf

[3] European Commission Working Document "General Tax Principles", 10 December 2004,
http://ec.europa.eu/taxation_customs/resources/documents/taxation/company_tax/common_tax_base/cctbwp1finalrev1_en.pdf

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Yours sincerely,

Philip Johnson
President