Barroso vows to propose Europe-wide tax

By Joshua Chaffin and Nikki Tait in Brussels

José Manuel Barroso, the European Commission president, pledged to propose a Europe-wide tax on the financial sector – a move that could inflame negotiations over the bloc’s next multi-year budget.

Speaking to reporters in Brussels, Mr Barroso said such a levy would help to “ensure that financial institutions make a fair and substantive contribution” to the costs of a debt crisis that has battered the European Union’s finances. It would also address concerns about banks’ “excessive profits,” he added.

Although the idea of a financial sector tax has been batted around for months, the timing of Mr Barroso’s remarks – which echoed a letter he sent to member states on Monday – may prove significant.

They were delivered just as the commission is finalising its proposal for the EU’s next seven-year spending plan, which is set to be published at the end of the month. One of the most controversial subjects in the budget debate will be whether to expand the bloc’s own sources of funding through the introduction of new EU-wide taxes.

Many diplomats and European officials expect Mr Barroso’s forthcoming budget proposal, known in Brussels as the multi-annual financial framework, to identify a financial transactions tax as a promising source of such cash.

The UK, which is seeking to limit the EU’s budget, staunchly opposes any EU taxes. A financial sector levy would also weigh disproportionately on the member state with the EU’s biggest financial services industry.

The commission has been studying the feasibility of a financial transactions tax after the European parliament voted overwhelmingly in favour of such an idea in March. This should be completed next month.

EU tax commissioner Algirdas Semeta had previously suggested that the idea of a tax at EU – rather than global – level was “premature”. But the study is likely to suggest that this could be possible if steps were also taken to mitigate against the flight of business activity.

Several diplomats noted that the EU president had chosen his words carefully and talked about a financial sector tax – rather than any specific form of tax, such one on transactions. EU tax measures normally require unanimity amongst member states before they can be adopted.

Mr Barroso, who has not said what he would prefer to do with the revenue from a financial sector tax, acknowledged that winning support for the measure would not be easy.

But he argued that such a tax would provide “welcome source of revenue” to European finance ministries. He also argued that 10 member states – including the UK – had already imposed such measures, and so an EU-wide approach was necessary to preserve the single market.

Last night Algirdas Semeta, EU tax commissioner, said his department’s analysis had shown that the different options for taxing the financial sector had separate merits.

But he said: “I believe as a first step there are ways to implement a financial transaction tax in the EU while mitigating the main risks identified”. He said he would recommend this to other commissioners.

Copyright The Financial Times Limited 2011