This report is intended as a guide to implementing a French financial transaction tax. The study was funded by UNITAID and carried out by 99 Partners Advisory (consultancy firm) on the initiative of the Chairman of the Executive Board of UNITAID, Special Advisor to the UN Secretary General in charge of innovative financing for development.

Central recommendation of the report

The report recommends that a tax similar to the UK stamp duty be applied, and extended to bonds and derivatives. In a country such as France, calculations show that such a tax should generate over EUR 12 billion per year, using lower rates than existing FTTs. As in other countries with FTTs, the introduction of such a tax on a national basis should have no significant negative impact on the national financial markets.

Conclusion

It is clear from all the evidence presented that the introduction of a financial transaction tax on a national basis is achievable in the short term. All of the conditions are in place to achieve this: the context and timing are favourable and it is immediately technically and legally feasible.
National financial transaction tax

The report sets out the details for implementing a financial transaction tax on a national basis, taking the example of France. Payment instruments such as cheques or interbank transfers and foreign exchange transactions are not included in the scope of this tax.

Type of financial instrument

Volumes traded in 2010 (in € million)
Estimated amount per annum (in € million)

- Equity securities: 5,437,125
  Estimated amount: 8,699
- Debt securities: 85,901,701
  Estimated amount: 2,226
- Mutual fund units or shares: 508,893
  Estimated amount: 407
- Derivatives: 60,495,908
  Estimated amount: 1,200

Total: 152,343,627
Estimated amount per annum: 12,532

What is the estimated tax receipts?

Based on the volume of financial instruments traded on the French financial markets in 2010, the estimated inflow is as follows (after applying adjustment measures):

- Equity securities: 5,437,125
- Debt securities: 85,901,701
- Mutual fund units or shares: 508,893
- Derivatives: 60,495,908

Total: 152,343,627
Estimated amount per annum: 12,532

(1) Derivatives trading volumes were calculated by adding up the tax bases of these financial instruments, namely, in particular, the notional value for futures and premiums for options.

Taxation scenarios: learning from existing taxes

Several countries already tax financial transactions successfully. These include the United Kingdom, with stamp duty Reserve Tax, and Taiwan, which imposes a tax on transactions in securities and in derivatives.

An examination of the existing FTTs shows that a variety of situations exist, in particular with regard to the financial instruments taxed, the collecting agent, the taxable event and the taxable entity.

How should a national FTT be structured?

Concerning transactions in national securities (equities and bonds): the tax will be collected by (a) the central securities depositories authorised to operate in the national markets, and (b) other financial intermediaries, for those transactions that are not settled at central depository level. Concerning derivative contract transactions: the tax will be collected by (a) clearinghouses, and (b) the post-trade back-office platforms set up by the parties themselves.

Taxing derivative transactions: the tax base will be all transactions involving derivatives contracts where one of the parties is a domestic company (or government body) or is a foreign subsidiary of a domestic company. The tax will be collected either at the level of clearing-houses, or at the level of the post-trade back-office systems set up by the accountable party to a taxed derivatives contract.

Who will pay FTT?

Purchasers (in the case of financial securities) and sellers of financial instruments will be the ultimate taxpayers. The majority of financial transactions are carried out by financial institutions, institutional investors and investment funds.

Less than 5% of the population draw a significant share of their income from securities and derivatives. In France, for instance, for 95% of households, financial investment income accounts for only 1.6% of total income.

What is the cost of collecting FTT?

FTT is technically feasible. The financial market infrastructures would simply adjust their information systems following the introduction of the tax. Tax collection by existing market infrastructures which already charge flat fees per transaction, will allow the tax authorities to avoid incurring significant costs for tax collection and compliance control.

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