Financial Transaction Tax
**What is it?**

A proposed harmonized tax on transactions in financial instruments proposed for EU Member States in 2011

**Which countries?**

France and Italy have already introduced national FTTs

EU FTT proposed in 2013 by 11 (now 10) EU Member States under ‘enhanced cooperation’ procedure

**Why was it proposed?**

1. Recover cost of crisis from banks
2. Reduce risk
3. Level playing field (VAT)
4. Harmonization

**Status**

Under political and technical discussion
Financial Transaction Tax - Overview

Proposed Key Features (1)

- Rates
  - 0.1% for standard transactions.
  - 0.01% for transactions in derivatives.

- Base
  - Consideration paid for standard transactions.
  - Notional amount for transactions in derivatives.
  - Market value if not at arm’s length.

- Taxpayer
  - Tax payable by each ‘financial institution’
  - Exemption for CCPs, CSDs, intermediate brokers, etc.
Financial Transaction Tax - Overview

Proposed Key Features (II)

Transactions
- Structured products, stocks, bonds, UCITS, derivatives
- Sale/purchase, UCITS redemption, repos, stock lending, derivatives
- NOT primary market transactions, restructuring, transactions with ECB, etc.

Jurisdictional scope
- Transaction in scope if
  - (a) one or more parties is a ‘financial institution’ established in FTT-zone (= residence principle), or
  - (b) transaction involves an instrument issued in FTT zone (= issuance principle)

Compliance
- All parties (including non-FTT zone) to transaction jointly and severally liable for FTT
- Registration, accounting and reporting obligations left to Member States
- Due immediately (electronic transactions) or within three days (all other)
- FTT monthly return and 5 year record keeping
- Specific and general anti-avoidance rule
Political Status

- Strong business and media opposition
- Technical/design discussions by EC Working Party on Tax Questions
- UK has launched legal challenge however this was dismissed by the Court on 30 April 2014
- EU Council’s legal service has issued negative opinion
- In principle agreement reached December 2015 but technical differences remain under discussion
- Media reports that Commission mandated to draw up new text for FTT-10 agreement by end of 2016 but outcome uncertain

Much criticism; technical differences under discussion
Financial Transaction Tax - Status and Future

Future Design Scenario based on December 2015 agreement

Shares
- Share transactions, *initially limited to issuance principle*
- Exemption for agents, clearing members and (possibly) *certain market makers*
- Bond transactions not covered

Derivatives
- Derivative transactions based on issuance *and* residence principle
- Wide base (special rules); low rates principle
- Impact on *sovereign debt* to be limited
- No market making exemption

Other Issues
- Tax rates *still to be worked out*
- Impact on real economy (e.g. commercial hedging)
- Impact on pension industry

* = key issues under discussion since December 2015
**Financial Transaction Tax - Overview**

**What can/should the FS Sector do?**

- **Assess impact on profitability**
  - FTT will either have to be absorbed, mitigated or passed on

- **Adjust business models**
  - Product substitution, relocation, etc.

- **Review systems and processes**
  - Will require new or adjusted information, tax collection, payment and reporting systems and processes

- **Manage risks**
  - FTT exposure (including secondary liability) needs to be identified, mitigated where possible, and residual risk managed
Financial Transaction Tax

KPMGs EU FTT Resources and Contacts

KPMG’s FTT resources

- KPMG’s FTT Service
- FTT page
- EU Member State Comparative FTT Survey
- KPMG FTT contacts

EU Core FTT Team

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