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FTT Newsletter

A Round-Up of FTT developments across Europe

There has been a further softening from the European Commission with respect to the roll out of the FTT. This follows a presentation given at a recent Deloitte event by European Commission Director Dr Bergmann, reports that the proposed scope of the Financial Transaction Tax ("FTT") is set to be scaled back, and the news about the delay to the FTT's introduction.

There has been further public criticism of the EU Financial Transaction Tax ("FTT"). Pierre Moscovici, the French Finance Minister, has acknowledged that the FTT in its current form may be counter-productive.

There have also been further developments in the Hungarian FTT ("HFTT") which are likely significantly to increase the bite of this tax.

And Finally: On 26 June 2013 we held a webcast entitled "The Changing Face of the EU FTT!" in which our experts from the UK, France, Italy, Germany and Luxembourg presented on FTT developments, commenting on the direction in which the FTT will develop. The webcast can be accessed on demand through our FTT website.

EU FTT

The European Commissioner for Taxation and Customs Union Algirdas Semeta has publicly stated that the scope of the FTT may be scaled back for certain instruments. His comments were made in reference to Government bonds and pension funds, the inclusion of which has proved to be controversial for many stakeholders. Semeta said that he prefers a lower rate for such instruments, rather than exempting them entirely. Semeta is quoted as saying:

"The Commission is ready to examine the suggestions made for an initial introduction of the tax with lower rates for products of specific market segments. Both government bonds and pension funds should remain in the scope of the directive. For those two categories of products, however, a reduced rate ... could constitute a suitable way forward and should be further examined."

These comments are in line with the review of the draft directive by the European Parliament, which also suggested that the FTT could be implemented with full scope but with a lower rate applying to certain instruments.
This follows our understanding that the European Commission (EC), having dismissed permanent exemptions for the time being, had been considering the following three approaches to the development of the FTT:
1. Providing temporary exemptions for certain activities e.g. repos, stock loans, sovereign bonds, derivatives
2. Provide temporary exemptions for certain "actors" e.g. pension funds, market makers
3. Introduce at a lower rate for some or all products increasing over time

The comments by Semeta suggest that the third approach may be favoured at present, although that may yet change. While the willingness of the EC to modify its proposals will be welcome news to some stakeholders, others which favour a full exemption for certain instruments (e.g. Italy for sovereign bonds; Germany for repos) and actors (Italy again, for pension funds; France for money market funds) may feel that this does not go far enough. Impacted financial institutions should ensure that they continue to lobby and consider the effect of the alternative approaches on their business.

We also understand the European Council, acting through ECOFIN, will discuss the FTT before the summer recess and discussions will continue post summer.

There has been further criticism of the EU FTT. Pierre Moscovici the French Finance Minister has publicly commented on the FTT. Moscovici is said to have told a financial conference:

“To get to this tax we must be pragmatic and realistic… The European Commission's proposal seems to me to be excessive and risks being counter-productive … I want to work on improving the Commission's proposal so that we have a tax that does not undermine the financing of the economy”

These comments are significant. France is one of the key EU Member States driving forward the FTT and the public criticism of the proposal by such a senior member of the French government shows that political support for the FTT in its current form may be waning and that the FTT might be altered to address some of the concerns raised by Moscovici and others. Specific concerns raised by France include the impact the FTT would have on money market funds, the impact on sovereign debt and the residence principle taking precedence over the issuer principle in determining which FTT zone tax authority the tax is paid to. Whether exemptions will come into play for these items remains to be seen but Moscovici’s comments suggest that there may be a political move towards a phased introduction of the FTT, with the initial stage being, for example, an equities based tax more closely resembling the French FTT.

Hungary

Due to HFTT revenues being lower than expected, the general rate of the HFTT is to rise from 0.2% to 0.3%, and from 0.3% to 0.6% in the case of cash withdrawals, in each case with effect from 1 August 2013. Additionally, the HUF6,000 (approx. £17) cap which applies on each chargeable transaction will be abolished in the case of cash withdrawals. Clearly these changes have the potential significantly to increase the cash cost of the HFTT to impacted money transmission service providers.

Furthermore money transmission service providers will also be subject to a one off additional charge in respect of the HFTT. This charge will constitute 208% of their HFTT liability from 1 January 2013 – 30 April 2013, and should be calculated and reported by 20 September 2013. The additional tax should then be paid in monthly instalments from 20 September 2013 to 20 December 2013. here.

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