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FINANCIAL SECTOR TAXATION: FINANCIAL ACTIVITIES TAX OR FINANCIAL TRANSACTION TAX?

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Abstract

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The recent financial crises has revealed the need to improve and ensure the stability of the financial sector to reduce negative externalities, to ensure fair and substantial contribution of the financial sector to the public finances and the need to consolidate public finance. All those needs represent substantial arguments for the discussion about the introduction of financial sector taxation. There are discussed in the paper two possible schemes of financial sector taxation – financial transaction tax and financial activities tax. The aim of the paper is to research the possibility of the introduction of financial sector taxation, to discuss the pros and cons of two major candidates on financial sector taxation – financial transaction tax and financial activities tax and to suggest the possible candidate suitable for the implementation on the EU level. Financial transaction tax represents the tool suitable mainly on global level, for only in that case enables generate sufficient financial resources. From EU point of view is considered as less suitable, for it bears the risk of reallocation. Therefore the introduction of financial activities tax on EU level is considered as a better solution for the financial sector taxation in the EU, for financial sector is exempted from value added tax. With respect to the fact, that the implementation would represent the innovative approach to the financial sector taxation, there are no empirical proves and therefore this could be the subject of further research.

financial transaction tax, financial activities tax, tax base, crises, financial sector

The financial crisis required many governments to provide huge support to the financial sector in the form of protection schemes, capital providing, guarantees, supports by central banks or expanded the insurance of the deposits. According to IMF, gross direct support amounted to 3.5% of GDP in G-20 countries.

The activities of the financial sector have been intensely scrutinised in the aftermath of the financial crises. Even though there is a consensus that the insufficient taxation of the financial sector and its activity did not play a substantial role in the formation of the crisis, there is continuous discussion whether the insufficient taxation and control could be detrimental to the stability.

In the last year various actions has been discussed on the global fields. There are two major international forums, where the possible taxation of the financial sector has been discussed. It is European Union and G20. Both of them have publicly presented the possible tools of financial sector taxation under consideration and have expressed its policy in that area.

Some of the countries has reacted immediately and have introduced temporary measures. United Kingdom has introduced “Bank Payroll Tax”, which expired on April 5, 2010. The tax was levied in the rate of 50% on all bonus payments in the excess of 25,000 GBP and during being in the force has raised 2 billion GBP. France has also levied similar tax. It applied to all bonuses paid during the accounting period of 2009. It was levied also in the rate of 50% and during being in the force has raised 360 million EUR. The government of United States has proposed a financial responsibility fee to repay the intervention costs.

The aim of the paper is to research the possibility of the introduction of the taxation of financial sector and to suggest and discuss the possible design of the tax and to calculate the possible revenues from levying the tax.

RESULTS AND DISCUSSION

Considering the costs of the financial crises, it has to be mentioned, that it is necessary not only to discuss how to recover the direct financial costs of the crises, but it is very important to discuss how to reduce the costs of future financial failures and crises. Therefore in that connection there are three main aims, which should be reached while levying the tax on the financial sector. Firstly, taxes should increase the efficiency and the stability of the financial markets and should reduce their volatility and harmful effects connected with excessive risk taking which can create negative externalities for the rest of the economy. Secondly, the financial sector has generated huge profits in last twenty years; therefore there is the desire to ensure fair and substantial contribution of the financial sector to the public finances. And thirdly, the financial sector bears the major responsibility for the rise and the extent of the crisis; therefore it should contribute via increased or new taxes to the fiscal consolidation in the aftermath crisis.

Contemporary literature discusses three main shapes of financial sector taxation. The possibility of the introduction of financial activities tax (FAT), which is discussed mainly on the global level on the field of International Monetary Fund (IMF), further the possibility of the introduction of financial transaction tax (FTT), which has been originally discussed by the European Commission, and finally Another possibilities of financial sector taxation as the introduction of bonus tax, "surcharge" to the corporation tax in the financial sector or the introduction of the fee on the currency transactions. The paper is aimed at two main possible candidates FTA and FTT (as security transaction tax). Even they have been discussed on the field of G-20 and EU, mainly due to the different impacts of the crisis on different EU Member States, the consensus still has not been reached.

Financial Transaction Tax

The idea of taxing the financial transaction has firstly been presented by James Tobin in 1978. He suggested the introduction of the international tax on spot currency conversions. Tax theory defines several possible forms of financial transaction tax. Firstly, it can be levied in the form of **security transaction tax**, which is levied on trades of all, either selected types of securities (i.e. equity, debt and derivates). Securities can be taxed either when originally issued (than it is similar to capital levy) or on secondary market trades. Based on that, security transaction tax can either be levied as a flat fee per trade or ad valorem from the market value of the securities. Secondly, FTT can also be levied in the form of **currency transaction tax**[1], which is levied on foreign exchange transactions and sometimes also on its derivates as swaps, currency futures, etc. Further, another form of FTT represents **registration tax** or **capital levy,** which is levied on the increase in a business capital in the form of capital contributions, loans or issuance of stock and bonds. It is usually imposed on all forms of business capital,

I: *Financial transaction taxes in the EU*

State	Type of the tax capital duty	 transfer tax	 stamp duty
Austria	X	-	-
Belgium	-	X	X
Bulgaria	-	X	X
Czech Republic	-	-	-
Denmark	-	-	-
Germany	-	-	-
Estonia	-	-	-
Ireland	-	-	X
Greece	X	X	X
Spain	X	-	-
France	-	X	-
Italy	-	-	X
Cyprus	X	-	X
Latvia	-	-	-
Lithuania	-	-	-
Luxembourg	-	-	-
Hungary	-	X	-
Malta	-	-	X
Netherlands	-	X	-
Poland	X	X	-
Portugal	-	-	X
Romania	-	-	-
Slovenia	-	-	-
Slovakia	-	-	-
Finland	-	X	X
Sweden	-	-	-
United Kingdom	-	-	X

X – tax is levied in the member state
- – tax is not levied in the member state
Source: Kesti, J. *et al.* (eds.), 2010: European Tax Handbook 2010, Amsterdam, IBFD and own research

1 Tobin tax in the tax theory.

but sometimes it is limited only on the selected type of the capital (i.e. equity or debt). In some states it is also limited only to some forms of business (e.g. partnerships). **Bank transaction tax** represents other form of FTT and it is levied on the deposits and withdrawals from the bank accounts, usually ad valorem as a percentage from the deposited (withdrawn) amount. Some countries levy **insurance premium taxes** which are levied to compensate the under taxation of insurance sector caused by the exemption from VAT. Finally, FTA can be also levied in the form of **real estate transaction tax**, which is levied on the value of land when sold. Real estate transaction tax is quite common type of tax levied in number of states. As was already mentioned in the introduction, the paper is aimed at FTA and FTT in the form of security transaction tax as two main candidates on the taxation of financial sector in EU level, which is the reason why other forms of FTT are not researched further.

In order to consider the possible application of FTT as a tax on EU level, it is necessary to analyze the current situation in taxation of financial transactions in the EU Member states. The results of the analysis are summarized in the table I.

Security transaction tax

There can be found number of literature discussing pros and cons of security transaction tax. As one of the very first proponents of security transaction tax can be considered (Keynes, 1936) who mentioned that introduction of financial transaction tax could restrict the impacts of speculative bubbles. He was followed by (Tobin, 1978) who proposed to introduced one percent tax on all foreign exchange transactions levied internationally in order to limit cross-border flows of capital. Other opponents of FTT (Stiglitz, 1989) and (Summers and Summers, 1989) mentioned that FTT introduction would decrease short-term speculations. On the other hand, opponents (Schwert and Senguin, 1993) or (Habermeier and Kirilenko, 2003) argue, that the introduction would increase the cost of the capital for the companies and would resulted into the lower prices of assets. They also have expressed that the above mentioned could lead to the reduction of liquidity which could cause higher price volatility. Another negative effect which mentions (Matheson, 2010) in connection with the introduction of FTT is the possibility of tax evasion.

The discussion of the negative effects lead contemporary proponents to consider remarkably lower tax rates than originally proposed by Keynes or Tobin. (Pollin and others, 2002), (Spratt, 2006), (Kapoor and others, 2007) and (Schulmester, Schratzenstaller and Picek, 2008) suggest the tax rate as one-half basis point to avoid the decrease in liquidity and tax evasion in the form of driving the activity off-shore. The idea which can be clearly seen from the review of the literature in that field is that while at the beginning the imposition of the tax was understood as the regulation of the financial markets, in last few years it is considered mainly as the tool for raising of the revenue.

FTT could be levied in two variants. Firstly, it could be levied on all stock, bond and derivative transactions – i.e. **a broad based FTT**. Tax base in case of stocks and bonds would create the value of the transactions[2]. In case of derivates the construction of the tax base is more complicated. Determination of the transaction value is very complex. Setting notional value of the derivate as a tax base would have two impacts. It would result into the very large tax base, which means that also the payment of the tax would be high, mainly in comparison with the actual price paid for the contract. On one hand it could reduce leverage contracts; on the other hand it would remarkably increase the costs of hedging for the companies. Moreover, it could lead to double taxation in situations, when the option is executed and the underlying is traded on the spot market. Alternatively, actual price of the derivate could be set as a tax base. The problem is that it is not possible for the derivates of all types. Actual price as a tax base could be used only in case of the derivates with premiums. Another consequence is that it would also resulted to significant decrease of the tax base.

Other possible variant of FTT represents **a narrow based FTT.** Under that model, only stock and bond transactions would be covered into the tax base. In this case, it is easy to define tax base for the transactions, for the asset price is determined by the market at the time when the transaction is executed.

To sum up, broad based FTT does not seem to be an appropriate candidate on taxing the financial sector on EU level due to the complicated determination of the tax base in case of derivates, which could be solved by setting a actual price of the derivate as the tax base, but would lead to the significant decrease of the tax base as was already mentioned above, which is in contradiction with the consideration, that FTT should be mainly the tool for raising the revenue.

At present, there are many countries applying FTT as financial security tax. China, India, Indonesia, Italy. South Africa, South Korea and UK apply financial security tax on secondary trading. It is applied in two forms – to shares traded on official exchanges or to shares traded on OTC markets. UK and Brazil impose FTT in the rate of 1.5% on equities of domestic company shares listed abroad. World financial centres as Hong-Kong, Singapore or Switzerland impose stock transaction tax in the amount of 10–30 basis points.

2 I. e. if the investor would buy 10 shares in the value of 500 EUR per share, the tax base would be 5000 EUR.

Some countries extend financial security tax also on derivates[3]. The tax base differs in dependence on the type of the derivate. In case of futures, tax is imposed on the delivery price, while in case of options tax is imposed both on the premium and on the strike price. USA imposes non-tax charges in the form of levy on listed shares. Some states – e.g. Italy, Switzerland, Turkey, Russia or Brazil also apply capital levies on debt finance. Tax on foreign exchange is levied only in Brazil in the amount of 0.38 %.

In recent decades there is clearly seen the trend of the abolishment of FTT in states, where it has been applied. USA has eliminated stock transaction tax in 1966. Germany abolished stock transaction tax in 1991 and capital duty in 1992. France eliminated the stock transaction tax in 2009 and Italy eliminated its transaction duties dramatically in 2000. Outside Europe the tax has been eliminated by Japan in 1999 Australia in 2001.

Same trend can also be visible on the field of capital levies. The Directive of the European Council No. 85/303/EC has obliged the member states to reduce capital levies on to the 1% and prohibited transaction taxes on new share offerings in the interest of fostering the development of EU capital markets. In 2006 the European Commission has further recommended to abolish all capital duties by 2010 in order to promote the development of EU companies[4].

The revenues from tax on financial and capital transactions[5] in the % from GDP are stipulated in the table II.

II: *Revenues from the tax on financial and capital transactions in % of GDP*

GEO/TIME	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Belgium	n.a.	1.0	1.1	1.1	1.0	0.9	0.9	0.9	0.9	1.0
Bulgaria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Czech Republic	n.a.	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Denmark	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Germany	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ireland	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Greece	0.6	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.7	1.1
Spain	n.a.	1.0	1.1	1.6	1.8	1.6	1.3	1.1	0.9	0.9
France	0.4	0.5	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4
Italy	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cyprus	n.a.	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.5	1.3
Latvia	n.a.	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lithuania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Luxembourg	n.a.	0.7	1.0	0.9	0.9	0.9	0.8	0.8	1.0	1.2
Hungary	n.a.	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Malta	0.8	1.0	1.1	1.3	1.2	1.4	1.0	1.0	0.8	0.7
Netherlands	n.a.	0.7	0.9	0.9	0.9	0.8	0.8	0.8	0.9	0.8
Austria	n.a.	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.3
Poland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portugal	n.a.	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Romania	n.a.	0.2	0.2	0.1	0.0	n.a.	n.a.	n.a.	n.a.	n.a.
Slovenia	n.a.	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Slovakia	n.a.	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Finland	n.a.	0.3	0.4	0,3	0.4	0.3	0.2	0.2	0.2	0.3
Sweden	0.3	0.3	0.3	0,3	0.3	0.3	0.2	0.2	0.2	0.2
United Kingdom	n.a.	0.7	1.0	1	0.8	0.7	0.6	0.7	0.7	0.9

n.a. – not available
Source: Eurostat

3 E.g. India
4 IP/06/1673
5 Indicator D214C in Eurostat, which covers security transaction tax, currency transaction tax, capital levy and real estate transaction tax.

Potential revenue from the financial transaction tax and its impact on the economic activities depends on the tax base definition as well as on the fact, whether the tax would be levied globally or at European or national level. It can be estimated that in the case of the introduction of the tax in the rate of 0.1% the revenue of 60 bn. EUR could be reached[6]. Some authors as (Schulmeister, Schratzenstaller and Picek, 2008) mention, that the revenue could be even ten times higher in case of inclusion of derivates into the tax base. They indeed point out, that the estimation can be distorted, for in practice there is big difference between expected and realized yield. Moreover, as was already mentioned above, the crucial role plays the definition of the tax base in case of derivates, for there is usually big difference between the underlying value of the derivate and the market price of the contract. According to (Schulmeister, Schratzenstaller and Picek, 2008) if the tax would be levied on currency transactions only (in the form of Tobin tax) at the rate of 0.005% the revenue would be 25 bn. EUR.

Financial transaction tax levied on the global level would generate revenues mainly in the very narrow group of states, where the big financial centers are situated. This disproportion would be further deepened by the inclusion of derivates into the tax base. It would therefore be necessary to apply the tax globally, for the investors all around the world use those financial centers and therefore all the users of the financial centers participate on the tax revenue. Another reason for global application is that it would prevent the spillovers of the investments into the centers, where the tax would not be applied. In that connection the introduction of financial transaction tax should be considered on EU level only.

It is necessary to also have in the mind the tax incidence. Generally, it can be expected that the tax burden would be shifted partially from the bank shareholders, mangers and market participants onto the final customer (i.e. citizens and business entities). The introduction of the tax would indirectly lead to the increase of the cost on capital not only for business entities but also for the national governments. (Schwert, Seguin, 1993) estimates, that the introduction of the tax in the rate of 0.5% would led to the increase of the costs on capital in the USA by 10–180 basis points.

Another argument for the introduction of the financial transaction tax is that it could help to internationalize the negative externalities connected with the activity of the financial sector. Widely constructed tax base should help to stabilize the financial market by the decrease of the short-term speculative transactions. Nevertheless, it is necessary to take into consideration also other facts as that the imposition of the tax can decrease the liquidity or the increase the price volatility. It is also necessary to take into the consideration that the financial transaction tax is not imposed on the value added but on the gross value, therefore it has cumulative character. The assets traded more often will bear higher tax burden.

Ideally, the tax should be levied only on the harmful or highly speculative transaction, which is not possible to realize in practice, for it is not possible to distinguish normal transactions from speculative transactions on the financial markets. To narrowly constructed tax base could lead to the distortion of the financial transaction, for the spillover effect could arise – the interest for transactions subjected to the tax could be decreased, while the interest for the transactions not subjected to the tax could be increased.

Financial Activities Tax

Financial Activities Tax represents a number of possible taxes meant to tax sum of profits and remuneration in the financial sector. As a reaction on the financial crisis mainly the three central types of financial activities tax are discussed. First type of the tax intends to alleviate long-standing imperfections in the tax treatment of the financial sector (e.g. exemption from value added tax). Second type of the tax aims to tax all economic rents generated in the financial sector. The last type of the tax is aimed at the taxation of the rents in excess of some higher rate of return.

Three possible alternatives of financial activities tax can be in that connection considered. **Addition method FAT** means the construction of broad tax base and to tax sum of wages and profits with the possibility of full expensing of investment but no deduction for financial costs. Such defined tax base would proxy value added. In some countries[7] the method represents type of tax used as a surcharge for the sectors, which are not subjected to value added tax.

Rent-taxing FAT would be designed to tax remuneration and cash-flow profit above a defined level of profit. The threshold for cash-flow profit would be set above the level of normal profit. This could be done through the application of Allowance for Corporate Equity (ACE), which allows the deduction of notional allowance for equity, or the definition of

6 COM(2010) 549/5
7 E.g. Denmark

profit including both real and financial transactions (R+F base)[8].

Risk-taxing FAT should tax the excess return due to the unduly risky activities. The construction is similar to rent-taxing FAT – both exempt normal profits either automatically or by the application of the rate similar to the cost of debt financing (in case of ACE application). The difference is that in case of risk-taking FAT the threshold is in addition set at the level of excessive return to average equity. I.e. that theoretically part of the rents could not be taxed at all, if the return on equity would not exceed the set limit.

On the contrary to FTT, FAT can target specific activities of the financial sector, without any impact on the direct operations on the financial market. It represents not transaction-based tax relying on items of the financial statements of financial institutions[9] (i.e. profit and remuneration from the profit and loss statement). Moreover, if it would be design as risk-taking FAT, it would discourage risk taking and designed as a rent-taxing, it would improve market efficiency.

The introduction of FAT should not have effects on the market structure, for it taxes profits of the financial institutions independently on the way how they are earned. It means that it does not discriminate certain financial products, nor is dependent on the level of the turnover. Moreover, any version of FAT could lead to the discrimination of financial institutions (subjected to tax) and quasi-financial institutions (not subjected to tax). Furthermore, FAT is imposed on the profits from net transactions therefore does not have cumulative character, in comparison with FTT which is levied on gross transactions, therefore does have cumulative character. It is also necessary to mention that also as in case of FTT, addition method FAT would lead to the shift of incidence onto the financial services, which in the situation when there is no possibility of business consumers to deduct the tax would partially lead to the shift on the users of the financial services.

There are already experiences with the introduction of financial activities tax in some EU member states. Denmark has introduced in 1990 the obligation to tax wage expenses in case of companies, performing activities exempted from the value added tax (i.e. also financial services).In that case the tax base is defined as the sum of wage costs and taxable profit. The general tax rate is set on 3.08 %. The tax rate is in case of specific sectors increased – e.g. financial sector on 5.08 %. Based from the statistics in 2008[10] the revenue from the levying this type of tax was 0.26 % of GDP, which represents in absolute amount 650 mils EUR.

France has introduced in 1968 so called payroll tax, which has to be paid by employers, who are not subjected to value added tax, or which turnover was by more than 90% in the last year not subjected to value added tax. The main taxpayers of this tax are banks and insurance institutions. The tax base is defined as the gross remuneration before the deduction of insurance payments. The tax rate is set on 4.25 %. It can be deducted from the corporate income tax base or personal income tax base. The revenue in the 2008[11] from levying of this tax was 2.3 % GDP, which represents 36 bn. EUR.

The last from the EU member states which levies financial activities tax represents Italy. It has introduced in 1997 so called regional tax on production activities. It is applied on the taxpayers taking part in commercial activities. The tax base is defined as the amount of the net production, which represent the accounting profit plus remunerations. The tax rate is set on 3.90 %. In 2008[12] the revenue from the levying of the tax was 2.3 % GDP, which represents 36 bn. EUR.

The potential revenue from the introduction of FAT in any form would differ across countries depending on the size of financial sector, profitability and the wages. Tax base under addition method FAT (FAT_{TBA}) would set as follows:

$$FAT_{TBA} = RF_{TB} - FC + WC, \quad (1)$$

where RF_{TB} represents gross operating profits (R+F base – i.e. including non-equity financial transactions) in financial sector, FC represents gross capital formation (i.e. gross capital expenditures) in financial sector and WC represents wage costs in financial sector. The calculation of potential revenues in case of the introduction of addition method FAT in the rate of 5 % in selected EU countries is shown in table III. The data were used from SOurceOECD database[13].

8 As mentions (OECD, 2007) there can be three different types of tax base – R-base, R+F base and S-base. Under R-base only real transactions are included in the corporate tax base. I.e. it is just difference between revenues and expenses, excluding financial transactions. R+F base includes real transactions and non-equity financial transactions. S-base includes net flow from corporation to shareholders (i.e. paid dividends plus purchase of shares minus the issue of new shares).

9 FAT it not the same as bank levy, which is based on the idea that leverage should be taxed, for it is an indicator for the risk exposure of the institution.

10 IMF, 2010.

11 IMF, 2010.

12 IMF, 2010.

13 The data for the EU member states which are not mentioned in the Table III were unavailable either in SOurceOECD database or Eurostat database.

III: *Potential revenues in case of addition method FAT in the rate of 5 % in selected EU member states*

Country	Gross operating profit in financial sector in % GDP	Capital formation in financial sector in % GDP	Wages in financial sector in % GDP	Tax base in % GDP	Calculated revenue in % GDP
Austria	2.1	0.8	2.7	4.0	0.20
Belgium	2.2	0.8	2.8	4.2	0.21
Denmark	1.8	0.4	2.5	4.0	0.20
Finland	1.1	0.3	1.2	1.9	0.01
France	1.4	0.8	2.7	3.3	0.17
Germany	1.5	0.3	2.3	3.6	0.18
Hungary	2.1	0.3	1.9	3.6	0.18
Ireland	5.9	0.6	3.2	8.4	0.42
Italy	1.7	0.4	2.3	3.6	0.18
Luxembourg	14.9	0.7	9.0	23.2	1.16
Netherlands	2.7	1.1	3.3	4.9	0.25
Portugal	3.8	1.6	2.6	4.8	0.24
Spain	2.1	0.7	2.1	3.5	0.18
Sweden	1.2	0.6	1.9	2.5	0.13
United Kingdom	2.8	0.7	3.9	6.1	0.31

Source: SOurceOECD and own calculations

IV: *Comparison of possible FAT implementation and currently levied FTT*

Country	Currently levied FTT in % GDP in 2008	Calculated revenue from FAT in % GDP
Austria	0.3	0.20
Belgium	1.0	0.21
Denmark	0.0	0.20
Finland	0.3	0.01
France	0,5	0.17
Germany	n.a.	0.18
Hungary	0.5	0.18
Ireland	0.0	0.42
Italy	0.0	0.18
Luxembourg	0.7	1.16
Netherlands	0.7	0.25
Portugal	0.5	0.24
Spain	1.0	0.18
Sweden	0.3	0.13
United Kingdom	0.7	0.31

n.a. – not available
Source: SOurceOECD, Eurostat and own calculations

The possible introduction of FAT in comparison with FTT, which is currently levied in some member states, is compared in the table IV.

CONCLUSION

The recent financial crises has revealed the need to improve and ensure the stability of the financial sector to reduce negative externalities, to ensure fair and substantial contribution of the financial sector to the public finances and the need to consolidate public finance. All those needs represent substantial arguments for the discussion about the introduction of financial sector taxation. This even more supported by the fact that under VAT regulation in the EU, financial services are exempted from VAT.

The aim of the European Commission in that context should be to ensure fair and balanced taxation of the financial sector and to decrease possible cross-border double taxation, which could arise in connection with the introduction of the new tax. It should also contribute to the better regulation.

The paper has researched two possible types of financial sector taxation – financial transaction tax and financial activities tax. FTT is the tool which is suitable for the application on the global level. Being applied globally (not only on the EU level), it could generate sufficient revenue. On the other hand, from the EU point of view FTT appears less suitable, for there are risks connected with the relocation and therefore undermining the ability of the tax to generate the sufficient income.

Therefore the introduction of FAT seems to be a better solution on the EU level. It would replace the taxation of financial sector which is currently exempted from VAT and could also raise substantial revenues, as was calculated in Table III. Since it is an innovative approach to the financial sector taxation, there are no empirical evidences; therefore it opens the space for further research mainly of the way of practical implementation on EU level.

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