Special taxes in the financial sector

Nordic comparison

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Special taxes in the financial sector

The question of additional taxes on financial institutions became prominent following the financial crisis of 2007-2008. The topic has generated much public and political discussions in recent years with many proposals presented, some of which have been implemented in countries legislations.

From the beginning special taxes on the financial sector has had many advocates, including political and economic leaders, civil society organization and financiers.

On the other hand, proposals on special increased taxes on the financial sector have been highly criticized by the financial sector with many countries not willing to take such steps as it has been argued that such taxes damage the competitiveness of financial institutions subject to such taxes, increase the prices of financial products and interest on loans and decreases demand for labour in the financial sector.

The Nordic countries are no exceptions to these ideas and have in many ways gone far when it comes to burdensome taxation on the financial sector. The following pages focus on special taxes in the financial sector in the Nordics. The overview has been divided into three parts, i. Financial Stability Contribution (FSC/Bank Tax), ii. Financial Activity Tax (FAT) and iii. Financial Transaction Tax (FTT).

How increased bank levies have become a reality

Denmark (FAT)
Denmark has had a Financial Activity Tax since 1990 and a Pension Activity Tax from 2000.

Obama´s Financial Crisis Responsibility Fee
Proposed tax which would be imposed on financial institution until that financial institution had paid off all money provided to it under the "Troubled Assets Relief Program". This fee remained just a proposal.

EU considered taxes
EU executive said it will study whether the EU should go alone in imposing a tax on financial transaction after G20 failed to agree.

The financial crisis of 2007-2008.

EU leaders urge IMF to consider global tax on financial transactions (Tobin Tax)

G20 declared that a "global tax" was no longer "on the table".

Iceland (FSC)
Special tax on Financial Institution introduced in Iceland.

2007 2008 2009 2010 2011

G20 request to IMF to prepare a report *"with regards to the range of options as to how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system."*

IMF Final report to the G20 laid out options, mainly:
1. *Financial Stability Contribution (FSC).*
2. *Financial Activity Tax (FAT).*
3. *Financial Transaction Tax (FTT).*

EU Commission provided an assessment of the suitability of FTT and FAT.

EU Commission issued consultation to obtain feedback on its initiatives for the taxation on the Financial Sector.

The Financial Sector, Central Banks and public authorities opposed any kind of tax on the sector

NGO´s, trade unions and citizens in general were in favour of the FTT proposal.

EU Commission promoted an FTT as a "own resource" of the EU in addition to customs duties (and VAT).

EU Commission proposal for FTT "To make the financial sector pay its fair share" in 27 member states of the EU by January 2014 – repeated postponement has lead to that the FTT has not been implemented.

EU FTT postponed to 1 January 2016

2012 2013 2014

Iceland (FAT)
i. Employers subject to extra payroll tax.
ii. Additional tax on profits.

Norway – FAT introduced starting from 2017:
i. Employers subject to extra 5% payroll tax
ii. Taxation of the enterprises maintained at 2016 level – 25% rate retained unaltered.

Sweden – Government proposal to a controversial tax on the financial industry.

2015 2016 2017

EU FTT postponed to 2017 – Formal agreement on the details of the EU FTT still not decided upon and approved by the EU Parliament.

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BANK Taxes / Levies

Modern methods for taxing the financial sector with special tax regimes were put forward by the International Monetary Fund (IMF) in its report "A fair and substantial contribution by the Financial Sector" for the G-20 in June 2010.

When viewing the special taxes/levies the Nordic countries impose on their Financial Sector we divided them into three categories.

FSC
Financial Stability Contribution / „Bank Tax"

Tax on financial institutions balance sheet, i.e. liabilities and/or assets

FTT
Financial Transaction Tax

Tax on a broad range of trade in financial instruments

FAT
Financial Activity Tax

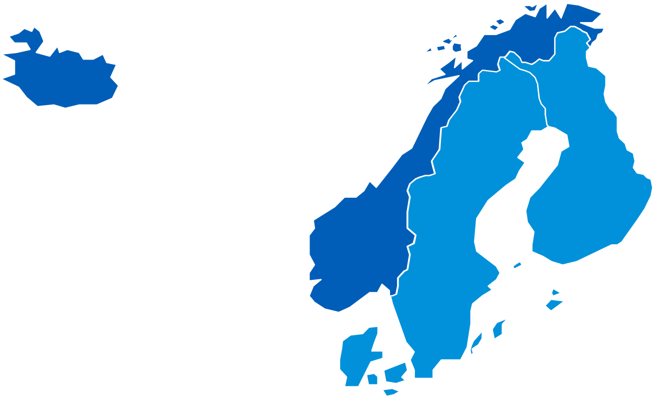
Tax on profits

Tax on remunerations

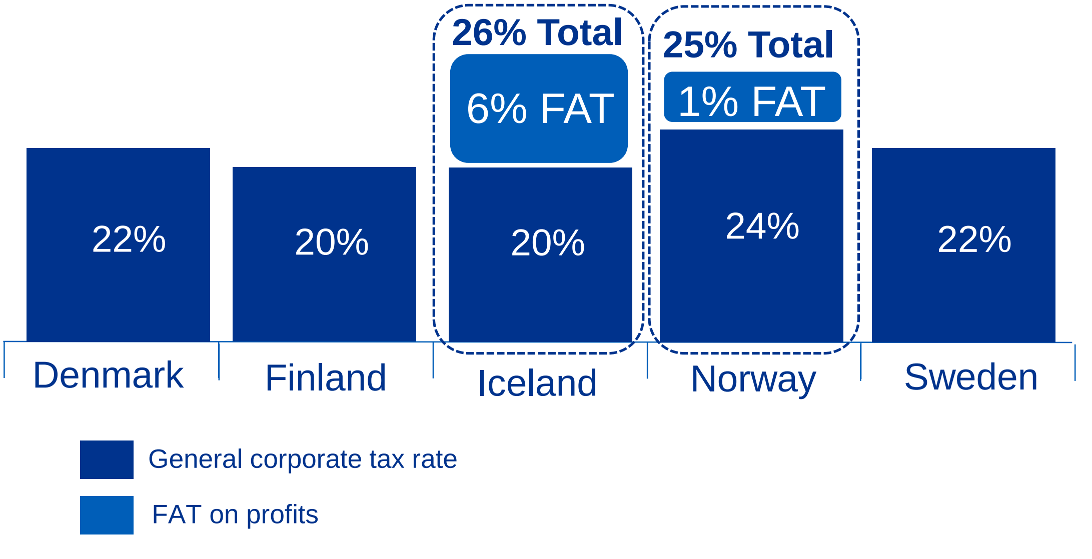
FAT - Financial Activity Tax on profits

Tax on profits

In broad terms, FAT is tax on financial institution profits and/or remuneration packages of their employees with the proceeds going into general government revenues.

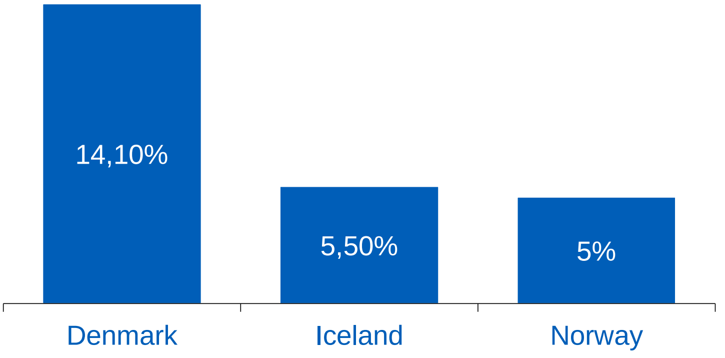


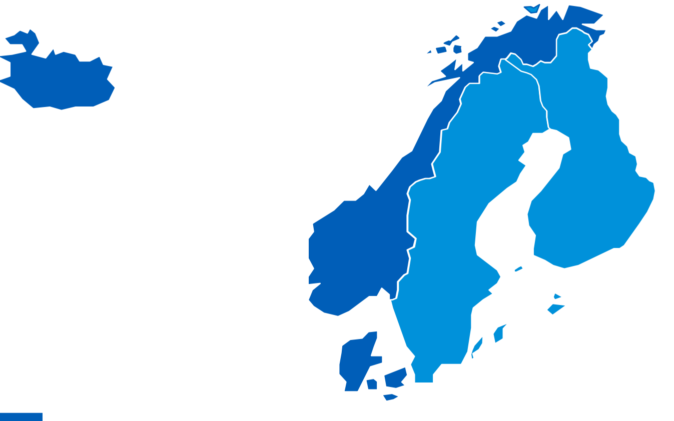
FAT on profits has been in place in Iceland since 2012 and was introduced in Norway in 2017.



FAT - Financial Activity Tax on remunerations

FAT is also raised on the financial institutions remuneration packages.



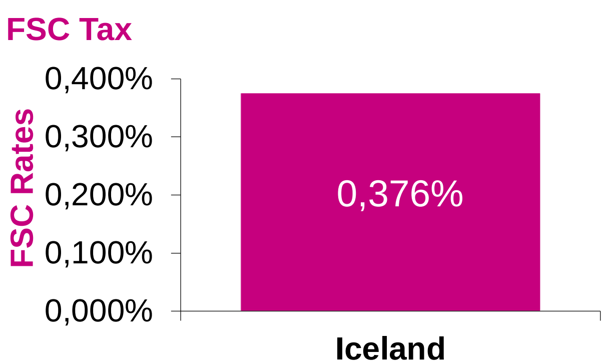


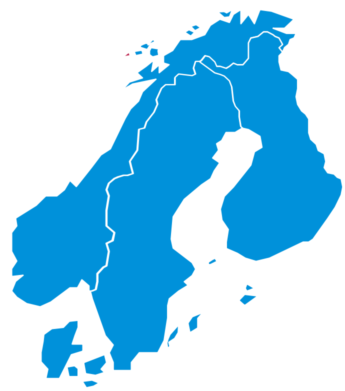
	Denmark	Iceland	Norway
Applies to	Banks and other financial institutions (and certain other VAT exempt sectors).	Commercial banks, savings banks, credit institutions, security companies, security brokerages, mutual funds management companies and other financial institutions.	Companies carrying out ‘financial activities’ such as banking insurance, mutual funds, investment companies, holding companies, pension funds, financing activities, services related to financing and insurance activities, and fund / portfolio management.
Tax Base	Calculated on the total annual salary cost (pension, bonuses, labor market contributions, benefits etc.) in relation to VAT exempt activities.	Any kind of salaries or remuneration paid in respect of an employment and is taxable.	Same basis as for employer's social security contributions. Broadly, all salary, both in cash and in kind.

FSC - Financial stability Contribution / "Bank Tax"

Tax on balance sheet, i.e. liabilities and/or assets)

IMF describes bank levies as "Financial Stability Contribution" which is a levy to be paid for the fiscal cost of any future government support to the financial sector. The aim is ensure financial stability and reducing the risk of future crisis.





Iceland is the only Nordic county imposing "Bank Tax" or "FSC" on its financial sector. Iceland imposes the tax on the base of total liabilities exceeding ISK 50 billions, with no possibilities to net off guaranteed deposits.

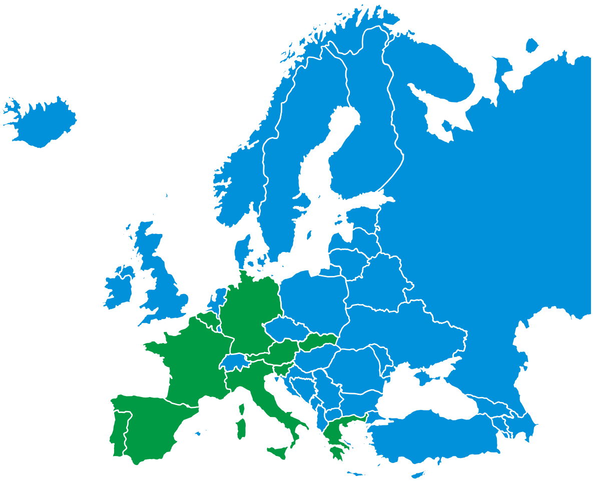
FTT - Financial Transaction Tax

Tax on financial instruments, such as stocks, bonds, currencies and derivatives.

EU Commission said that the FTT can be better described as *"a group of taxes [...] the taxing of trading in financial instruments such as shares and bonds and of trading in derivatives thereof."*

FTT has not been imposed in any Nordic country. Furthermore both Sweden and Denmark have opposed the EU Commission´s proposal to implement FTT if applied only in the EU.

Questions on if, when and then how countries will implement the FTT remains unanswered.



EU members participating in the proposal of the EU Commission to implement a FTT using enhanced co-operation.

		Applies to	Rate	Tax Base	Threshold/ Exclusion from tax base
FAT on profits	Iceland	Financial institutions which have a license to operate as such – financial services exempt from VAT.	6%	Income tax base with no joint taxation or carry forward of losses taken into account.	ISK 1 billion in income, i.e. income blow that is excluded from the tax base.
	Norway	Companies carrying out financial activities.	1% (increasing to 2% from 2018)	Ordinary taxable income (same as CIT).	Only applicable if the FAT on remunerations is applicable (see below).
FAT on remunerations	Denmark	Banks and other financial institutions (and certain other VAT exempt sectors).	14,1%	Calculated on the total annual salary cost (pension, bonuses, labor market contributions, benefits etc.) in relation to VAT exempt activities.	Salary costs in relation to VAT taxable activities and its annual VAT exempt indirect tax basis exceeds DKK 80,000.
	Iceland	Financial institutions which have a license to operate as such - financial services exempt from VAT.	5,5%	Any kind of salaries or remuneration paid in respect of an employment and is taxable.	Retirement and pension payments, remuneration for activities that are not VAT exempted and payments b/c of paternity.
	Norway	Companies within the financial sector - all financial services which are exempt from VAT.	5%	Same basis as for employer's social security contributions. Broadly, all salary, both in cash and in kind.	Tax not applicable if wage costs linked to financial activities do not exceed 30% of total declarable wage cost, or if wage costs linked to VAT-able financial activities exceed 70% of total declarable wage costs.
FSC	Iceland	Financial institutions which have a license to operate as a commercial savings or credit bank, and other entities authorized to accept deposits.	0,376%	Total liabilities at the end of the fiscal year exceeding ISK 50 billions as listed in the financial institution tax return. It is not permissible to net off the assets and liabilities within individual items or categories when calculating the tax base.	Liabilities below ISK 50 billions.

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