



Euro Tax Flash from KPMG's EU Tax Centre



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German Finance Minister issues amended Financial Transaction Tax proposal

Financial Transaction Tax – Germany – European Commission – ECOFIN – Mutualization – Enhanced Cooperation Procedure

On December 9, 2019, the German Finance Minister, Olaf Scholz, issued a revised proposal for a Council Directive regarding the introduction of a common financial transaction tax (FTT) to the participating Member States in the so-called enhanced cooperation procedure (Germany, Austria, Belgium, France, Greece, Italy, Portugal, Slovakia, Slovenia and Spain). The revised proposal includes an optional exemption for pension schemes and a new system for mutualization of the FTT revenues.

Background

Taxation of the financial sector has been under discussion at the European level since 2011, when the European Commission first proposed implementing a financial transactions tax (FTT) at EU level. After initial discussions, it became apparent that unanimous support amongst EU Member States did not exist. For further information on the development of an FTT at EU level, please refer to [ETF 406](#).

As previously reported, at the ECOFIN meeting on December 5, 2019, it was noted that negotiations in relation to the FTT proposal are still proving to be complicated (please refer to [ETF 419](#)). Two of the main points of debate were a possible exemption for pension schemes and the method of calculation for the FTT tax revenue compensation scheme that would guarantee a minimum revenue for all Member States that participate in enhanced cooperation (so-called "mutualization").

During the December ECOFIN meeting, it was also highlighted that agreement amongst the Member States that are authorized to move forward under the enhanced cooperation procedure would only represent a first step in the legislative process. If a draft Directive text is tabled and

agreed by the relevant Member States, an inclusive and substantial debate between all Member States would need to take place at the EU Council.

FTT – Revised Proposal

The revised proposal refers to an FTT that would be levied at a minimum standard rate of 0.2% and apply to financial transactions that mainly involve the acquisition of shares issued by listed companies located in a participating Member State with a market capitalization above EUR 1 billion.

In line with the proposal that was under discussion within the enhanced cooperation group, certain types of financial transactions would not be subject to the FTT. Examples include: initial public offerings, market making activities, intra-group transactions, repurchase agreements and reverse repurchase agreements, securities lending and securities borrowing buy-sell back and sell-buy back agreements.

In addition, the proposal includes an optional tax exemption for pension schemes, which was requested by Italy, Belgium and Slovakia in the course of a working group meeting on November 12, 2019.

The draft law also provides for a mutualization mechanism, which (according to a document accompanying the proposal) represents a compromise reached by Germany, France and Italy. Under the proposed mechanism, FTT revenue generated will be allocated between the participating Member States so as to ensure that all participating jurisdictions reach a guaranteed minimum annual revenue of EUR 20 million. This mechanism is thought to encourage smaller economies, for which the FTT would only generate limited revenues, to participate in the initiative.

Overall, the German Finance Minister anticipates that the tax will generate around EUR 3.5 billion of tax revenue a year across the ten participating Member States. In his letter accompanied to the FTT proposal the German Finance Minister asks the participating Member States to back the draft directive. He has previously said the tax should be implemented by 2021. The draft directive leaves the date of entry into force however open.

EU Tax Centre Comment

The negotiations on the FTT prove to be complicated and a number of important considerations have to be taken into account in discussions among participating Member States. Although the revised proposal addresses some of the outstanding considerations, it remains to be seen whether it can serve as a first step towards reaching agreement on a common approach to taxing financial transactions. As a first reaction, the Austrian Finance Minister has already criticized the narrow scope of the tax base which excludes synthetic investment products, derivatives and high frequency trading from taxation. Moreover, it has already been clarified that a potential consensus needs to be presented to all Member States for an inclusive discussion. Such an inclusive debate among all Member States has to take place following the required procedural steps (analysis by experts at WPTQ level, preparatory debate by Committee of Permanent Representatives, agreement in Council).

Should you have any queries, please do not hesitate to contact [KPMG's EU Tax Centre](#), or, as appropriate, your local KPMG tax advisor.

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