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NOTE

From:	Presidency
To:	Delegations
Subject:	Financial transaction tax - the way forward

I. BACKGROUND

1. The purpose of this paper is to present a number of policy considerations that the Portuguese Presidency considers important for an inclusive discussion among all Member States regarding the way forward on the financial transaction tax in the EU in line with Article 330 TFEU.
2. The proposal for a Directive on a common system of financial transaction tax (FTT) was submitted by the Commission to the Council on 28 September 2011. Given that unanimous agreement by all Member States could not be attained, on the basis of the request of eleven Member States, and in accordance with the authorization of the Council of 22 January 2013¹, and consent of the European Parliament of 12 December 2012, the Commission on 14 February 2013 submitted a proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax.

¹ OJ L 22, 25.1.2013, p. 11.

3. At this stage, 10 Member States are participating in the enhanced co-operation in the area of FTT: Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (hereafter referred to as "participating Member States").
4. Following the preparatory work by the WPTQ, and, where relevant, by the HLWP, the state of play on this dossier has been discussed at the following meetings of ECOFIN Council:
- 6 May 2014², 7 November 2014³, 9 December 2014⁴, and 8 December 2015⁵;
 - 17 June 2016⁶, where, as a follow-up to the statement of ten participating Member States that was inserted into the minutes of the 8 December 2015 ECOFIN⁷, the Council took note of the state of play on this dossier regarding a number of selected issues (application of "issuance" and "residence" principles and the territorial scope for the FTT⁸; exemption from FTT of market making activities⁹; scope of transactions in derivatives contracts to be subject to the FTT¹⁰);
 - 6 December 2016¹¹, where the Council took note of the ongoing discussion on the constitutive parts (the "building blocks")¹² of the FTT and the assembly of those "building blocks" into possible FTT models. The Council also took note of the discussions on issues relating to cost efficiency of possible FTT collection models;

² Doc. 9399/14 and doc. 9576/14.

³ Doc. 14949/14.

⁴ Doc. 16498/14 and doc. 16753/14, points 36 to 46.

⁵ Doc. 14942/15.

⁶ Doc. 9602/16.

⁷ Doc. 15112/15 ADD 1.

⁸ Doc. 9602/16, points 6 to 8, and doc. 14942/15, points 7 to 11.

⁹ Doc. 9602/16, points 9 to 12, and doc. 14942/15, points 15 to 17.

¹⁰ Doc. 9602/16, points 13 to 15, and doc. 14942/15, points 18 to 19.

¹¹ Doc. 13608/16.

¹² Doc. 14942/15, point 3.

- ECOFIN on 14 June 2019 was informed of the state of play of this file.

5. At the HLWP meeting of 18 April 2018, participating Member States indicated that they were evaluating the impact of the latest international developments and possible options, in particular as far as FTT revenue expectations are concerned.
6. At the HLWP meeting of 7 May 2019, participating Member States indicated that they were discussing about an option of an FTT based on the French model of the tax¹³ and about the possible mutualisation of the revenues among the participating Member States as a contribution to the EU budget. An exchange of views on the state of play on this file took place at WPTQ level on 20 September 2019.
7. In these negotiations a large number of important considerations have to be taken into account in the discussions among the participating Member States. It has already been clarified (also at ECOFIN level in June 2019) that should an informal agreement among Member States participating in the enhanced co-operation be reached, it would only be a preliminary step in the legislative process. This requires that a draft text of a Directive is tabled for examination in the Council preparatory bodies.
9. Any decision in the Council should be preceded by an inclusive and substantial debate among all Member States. In the light of the foregoing, as already indicated in the December 2016 ECOFIN report to the European Council on tax issues,¹⁴ further work of the Council and its preparatory bodies will be required, before a final agreement on this dossier can be reached among the Member States participating in the enhanced co-operation, that respects the competences, rights and obligations of the Member States not participating in the enhanced co-operation on FTT.
10. To be noted, the European Council in its conclusions of 17-21 July 2020 (point A29) indicated that *"The Union will over the coming years work towards reforming the own*

¹³ Broadly, the FTT in FR applies to acquisitions of equity securities issued by a company whose headquarters are located in FR and whose market capitalisation exceeds 1 billion EUR on 1 December of the year prior to the year when the tax is assessed. The transfer of ownership is taxed, and acquisition of FR shares is taxed wherever the transaction occurs. Certain operations are exempt, such as primary emissions, market-making and intraday operations. This tax is applicable at the rate of 0.3% on the price of acquisition.

¹⁴ 15254/16, point 45.

resources system and introduce new own resources. [...] ... the Union will, in the course of the next MFF, work towards the introduction of other own resources, which may include a Financial Transaction Tax." In this regard, the Commission has recently clarified that¹⁵ *"[d]iscussions on the Financial Transaction Tax under enhanced cooperation are ongoing with a view of their finalisation by the end of 2022. Should there be an agreement on this Financial Transaction Tax, the Commission will make a proposal in order to transfer revenues from this Financial Transaction Tax to the EU budget as an own resource. If there is no agreement by end of 2022, the Commission will, based on impact assessments, propose a new own resource, based on a new Financial Transaction Tax. The Commission shall endeavour to make these proposals by June 2024 in view of its introduction by 1 January 2026."*

11. These latest developments underline FTT's technical potential. First, it enjoys a relative technical and political maturity, in the light of a decade-long effort in comprehensive research and discussion at EU level. Second, it benefits from the valuable learning experience of several Member States, which have applied different forms of this tax for several years and had the opportunity to gradually evaluate its impact.¹⁶
12. **Against this background, the Portuguese Presidency deems it appropriate that all Member States are updated on the state of play of the ongoing negotiations on the FTT. It seems also a good opportunity to hold a general conceptual discussion on the design of the FTT in an inclusive format. The key objective of the Presidency is to explore avenues for a possible consensus on an efficient FTT design model, reassessing the views of participating and non-participating Member States in the light of the current context. The Presidency, at this stage, invites delegations to focus solely on the tax design issues. Purely political aspects, such as own resources or potential mutualisation of FTT revenues, which are fundamental to the dossier, shall be discussed at a later stage in the most appropriate fora.**

¹⁵ See European Parliament legislative resolution of 16 December 2020 on the draft Council regulation laying down the multiannual financial framework for the years 2021 to 2027 (09970/2020 – C9-0409/2020 – 2018/0166(APP)), Commission Declaration on establishing a Financial Transaction Tax based Own Resource.

¹⁶ This includes Belgium, France, Greece, Italy and, most recently, Spain.

II. QUESTIONS FOR DISCUSSION

A. THE PROPOSED APPROACH TO THE DOSSIER

13. Although recognizing the merits of the FTT, it is the Presidency's view that the overall context requires a particularly thoughtful approach to FTT design. First, the state of the post-COVID-19 economy will be more fragile than before this crisis. Second, the several years of discussion in the EU on the file have demonstrated that the design complexities of this tax, and its articulation with the wider regulatory framework, require a gradual approach to the implementation of the FTT in the EU.
14. In the Presidency's view, the most sensible approach would be to start testing at the European level, as early as possible, the approaches developed and already tested by France and Italy, building on their combined experience. There are solid economic data, a good body of administrative guidance, and tested collection procedures developed over the years by these Member States, which will be of great use for national tax policy departments and tax administrations to implement this tax more easily. This experience would provide a Proof-of-Concept at the European level, allowing all involved to gradually develop more knowledge and confidence on the potentialities and limitations of this tax.
15. All in all, the Presidency is convinced that the current situation requires a broad consensus on a compromise proposal based on an FTT that has already been successfully introduced and secured with minimal distortions to the financial markets. Introduction of such a tax as a first step would also permit exploring with further confidence the options of developing this tax in the future.

QUESTIONS:

(a) What are your views on the proposed approach to the dossier?

(b) In case you represent a Member State that is not participating in the enhanced cooperation, do you consider that the need to find additional sources for financing the EU recovery effort, coupled with the proposed technical approach to FTT design, might increase the interest for further work on an inclusive compromise proposal?

B. THE STRENGTHS OF THE TESTED FTT MODELS

16. As noted, several Member States have already accumulated experience in the implementation of FTTs. The French and Italian experiences are particularly paradigmatic. Both France and Italy have focused on taxing transactions in shares ¹⁷ (in the case of Italy, also transactions in equity derivatives). Although their approaches to the taxation of shares differ with regard to some technical specificities, both countries based their FTTs on the two same tax design pillars.
17. First, the application of the issuance principle. This approach largely limits the risks of circumvention since all transactions involving the equity securities of listed companies with registered offices in the taxing state are taxed, irrespective of the place of transaction, nationality, or the place of residence of financial intermediaries. This means that the tax also covers transactions involving taxable securities conducted on foreign exchanges, including non-European.¹⁸
18. Second, the introduction of a number of design features to protect market liquidity, namely: (i) focusing taxation on the shares issued by companies with a high market-cap value (the liquidity of such shares is traditionally higher); (ii) encompassing market-making exemptions (not to disturb their injection of liquidity on the market);¹⁹ and (iii) an intraday trading exemption (favouring a cautious application of the tax).

¹⁷ Spain recently implemented a similar design approach on its own FTT, fundamentally inspired on the French model. The UK's Stamp Duty also follows similar structural lines.

¹⁸ The only way for issuing companies to exclude their securities from the scope of the tax would be for them to move their head offices outside the taxing state. Companies are very unlikely to do this for the sole reason of avoiding a very low tax rate on secondary market transactions, and, indeed, such behaviour has not been experienced in France and Italy. The adoption at the European level could only strengthen this conclusion.

¹⁹ Note that although both Member States implemented a market-making exemption, the specificities of the definition differ.

19. The strength of this technical approach may be assessed in the economic data available from France and Italy on the application of their national FTT, which is enclosed as an annex to this note. This information was kindly prepared by these two Member States at the request of the Presidency, so as to allow all Member States to benefit from their valuable experience.²⁰

QUESTION:

Do you consider that the French and Italian experiences provide a solid basis for the gradual European approach on the FTT (either in the context of the enhanced co-operation or EU-wide)?

²⁰ This data is particularly valuable. First, the time-period involved is a reliable testing period for evaluation purposes (i.e., approx. 8 to 9 years). Second, the dual country sample, in the same time-period, with similar design approaches and both within the European context, should confer it additional reliability.

C. SCOPE (INSTRUMENTS) – THE RECENT “SOCIÉTÉ GÉNÉRALE” CASE AT THE CJEU AND THE ITALIAN APPROACH TO TAXING DERIVATIVES ON SHARES

20. When designing an FTT to tax shares, it is important to consider whether it should also target equity derivatives. This question is justified by two core policy considerations. First, the curbing of substitutive behavior.²¹ That is, to prevent the substitution of transactions on shares, which would be taxed, by transactions on equity derivatives, which can replicate all specificities of the shares, except the voting right, without being taxed. Arguably, if derivatives on shares are left out of the scope of the tax, market participants interested in the economic value of a share, but not its voting rights, may use derivatives to realize this value without paying the tax.²² A second policy consideration is that the market for equity derivatives is substantially smaller than others (*e.g.*, interest rate derivatives, currency derivatives and credit derivatives). Thus, based on the Proof-of-Concept approach recommended above, this market could provide a safe scenario for the tax.²³
21. Italy has followed this approach when designing its FTT. Under the Italian FTT, in the case of derivatives, the tax is payable by each of the parties to the transaction at a fixed rate, depending on the nature and nominal value of the instrument involved. The tax is due irrespective of where the transaction is concluded, or the place of residence of the contracting parties. The tax is levied by intermediaries involved in the transactions. It currently accounts for slightly less than 10% of the overall FTT revenue in Italy.

²¹ From a tax policy perspective, when taxing a financial instrument, it is recommendable to tax its closest substitutes. This minimizes behavioural changes induced by the tax law, and, thus, its associated deadweight loss. Those behavioural changes, in the form of avoidance strategies, also reduce the taxable base, and, as a result, the expected revenue from a tax.

²² Note that this substitutive behaviour is not always observable since the market for corporate control, in certain situations, may arguably be strong enough to sustain a balanced market for shares and deter taxpayers from substitution.

²³ In the light of the centrality of the theme for some Member States, it is noted that, based on available data, Pension Funds tend not to be great derivative holders. Those that do hold derivatives, generally invest mostly in currency and interest rates derivatives. Equity, credit and commodity derivatives are also used but in a limited proportion.

22. The Italian FTT taxes transactions in derivatives whenever the underlying of a derivative are taxable Italian shares. Until recently, there were doubts regarding the compatibility with EU law of this application of the issuance principle (i.e., taxing a derivative based on the place of issuance of its underlying). However, on 30 April 2020, the Court of Justice of the European Union (CJEU) finally clarified these doubts in the case of *Société Générale* (C-565/18), deeming the Italian approach to taxing derivatives compatible with EU law.
23. Taking into consideration the policy rationale set out above, the need to cater to Member States that defend an ambitious approach to FTT design, and the confirmed compatibility with EU law, it is the Presidency's view that the inclusion of equity derivatives could be part of the first step of the FTT in the EU. The Presidency is of the opinion that such an approach could be based on the already well-tested Italian experience.²⁴ To be noted, if required to cater for different policy preferences and national specificities concerning this file, this element of the FTT could be introduced as an opt-in, allowing all those interested in this approach to implement it in a harmonized way, and those that have a different preference, to abstain from doing so.

QUESTION:

Do you agree with the proposed approach of including transactions in equity derivatives in the scope of the FTT?

²⁴ Thus, for instance, the Presidency is of the opinion that on this first stage of the tax the Italian methodology to taxing derivatives could be strictly followed, leaving the work on a Term-Adjusted Tax Base for derivatives, as proposed under the “Core Engine” proposal of 2016, to a subsequent step of the tax.

D. SCOPE – GRADUAL APPROACH TO THE IMPLEMENTATION OF THE TAX

24. As noted, the Presidency favours a gradual implementation of the FTT. The step-by-step approach would permit Member States and Commission to methodically evaluate the economic impact of the tax, tax administrations to progressively develop efficient and effective collection procedures, and market structures and financial institutions to gradually build up the knowledge and infrastructure required to facilitate tax compliance.
25. The several years of existing work and research on the design of the FTT show that each class of financial instruments (shares, bonds, derivatives, structured products) raises fairly distinct economic questions and collection issues. Therefore, it is advisable that the tax burden is carefully calibrated on each type of financial instrument to ensure its proper alignment with economic value, and that automated collection procedures are gradually developed, tacking stock of existing market infrastructures. The proper refinement of both elements should strongly contribute to a significant reduction of the deadweight loss potentially associated with the tax.
26. Such a gradual approach to the implementation of the FTT can be structured on the basis of a review clause. Any subsequent enlargement of the scope of the tax would be preceded by an in-depth analysis of the operation and effects of the tax on each implemented step, and supported by a proficient economic and technical research on the available approaches to implement each new step of the tax. The timeline imposed for such periodical evaluations is a matter of a political choice, but in practical terms it should always preferably encompass a period of at least 2 to 3 years of application of the rules, to allow for a reliable analysis.
27. Despite this gradual approach, those Member States that have already introduced an FTT with a larger tax base should have the option of keeping it and those Member States that would like to implement a faster evolution of scope should be allowed to do so (i.e. the Directive would only provide for a minimum level of harmonization).

QUESTION:

What are your views regarding the proposed review clause and minimum level of harmonization of the FTT?

FTT in France

The French Financial Transaction Tax (FTT) was introduced in 2012. It has two components:

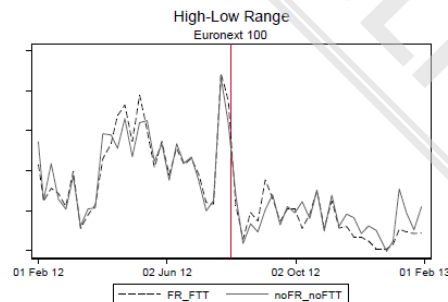
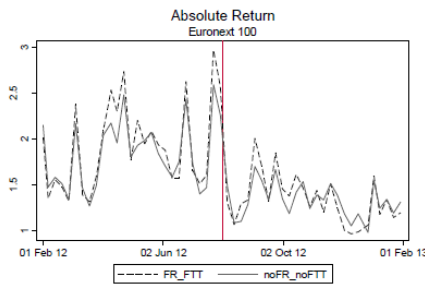
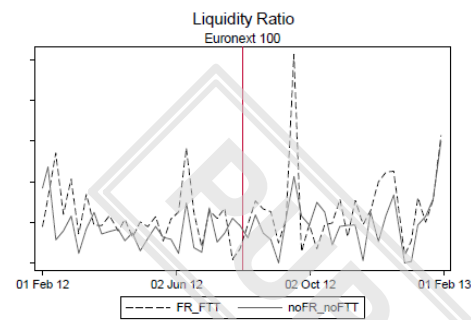
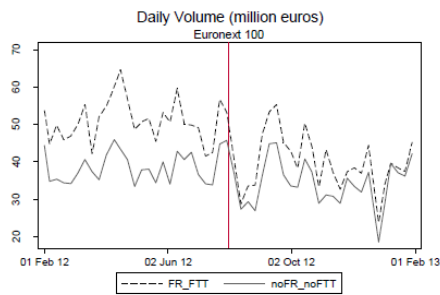
- a tax on acquisitions of equity securities or similar securities for companies whose (i) registered office is located in France, (ii) whose shares are listed on a regulated markets in France and (iii) whose capitalisation is greater than €1 billion. The tax applies to transactions giving rise to a transfer of ownership at the close of the financial markets, i.e. to the amount of acquisitions net of sales made during the same period. Since 2017, the rate of the tax is 0.3%. The tax does not apply to primary issuance and market making activities are exempted from the tax to preserve market liquidity ;
- a tax on cancelled orders in the context of high frequency transactions carried out by financial intermediaries established in France. The rate of the tax is 0.01%. Market making activities are also exempted from this tax.

Initially, a tax on purchases of sovereign credit default swaps was introduced in 2012 was abolished in 2017, following the European ban on these instruments (EU regulation 236/2012 of 14 March 2012 on "Short selling and certain aspects of credit default swaps").

Economic studies show that the **overall impact of the French FTT on French markets and shares has been limited and has not led to any major adverse effect.**

In line with what has been observed in other countries and with the assumption made by the European Commission in its 2011 and 2013 impact assessments, the introduction of the FTT in France in 2012 reduced **transaction volumes** by 10% to 20% on average. This impact should be put into perspective with the overall increase in transaction volumes during the same period: in 2015 alone, for example, transactions in French equities increased by nearly 30%.

The introduction FTT did not have a significant impact on **market liquidity** (there was no meaningful change in indicators such as the liquidity ratio or the bid-ask spread) nor did it have a significant effect on financial volatility (measured through indicators such as absolute return and high-low range), either upwards or downwards.



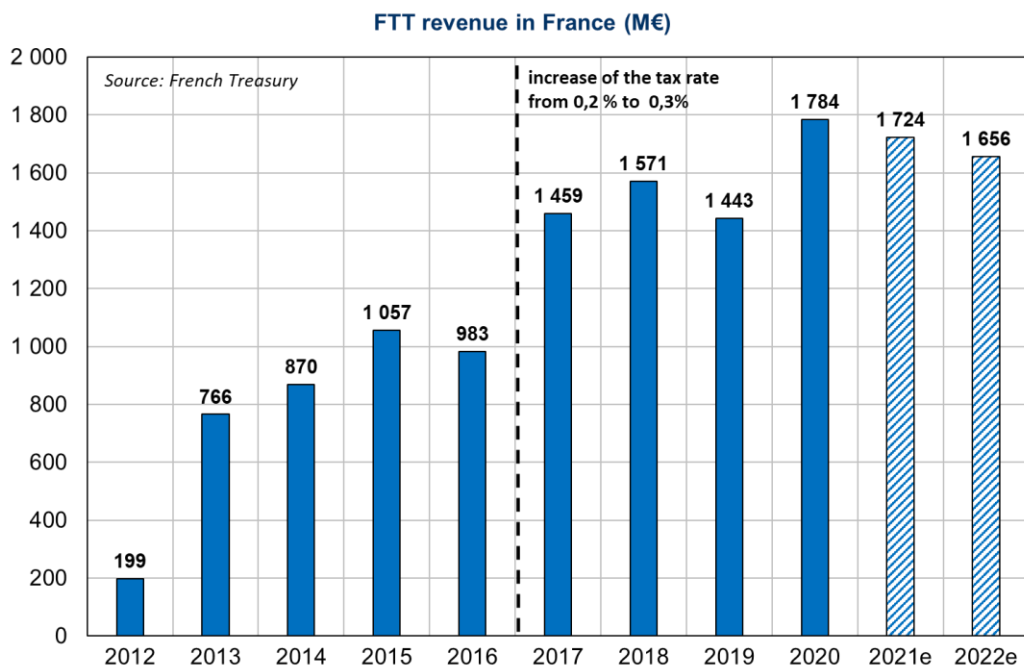
Evolution of and volatility of shares listed on Euronext before and after the introduction of the FTT,

(source: Capelle-Blancard and Havrulchyk (2017))

Note: The distance between the graphs makes it possible to appreciate the impact of the FTT: when, for example, the dotted graph approaches the solid line graph (as in the top left-hand frame), this reflects a drop in transaction volumes for shares that are subject to tax, compared to those that are not.

The introduction of the FTT in France has not led to a significant shift towards non-taxable investment vehicles as a strategy for tax avoidance following the introduction of the FTT. The tax led **investors to adapt their strategies**: investors with a high turnover within their portfolio have reduced their positions in French equities following the FTT, but investors with a low turnover have increased their positions. However, these strategies did not lead to an erosion of the tax base or a fall in revenue that have been stable between 2017 and 2019. In 2020, the revenue of the FTT reached 1.8 billion euros, an increase of 300M€ compared to 2019, due both to the increase of taxable companies in 2020 and the higher volume of transactions in a context of heightened financial stress.

The revenues of the tax on high frequency transactions are negligible (28k€ in 2019). There is no evidence that the introduction of the FTT has led to a decrease of high frequency transactions on French regulated markets and it is likely that the tax, based on the residency principle, has been circumvented by relocating activities. Nevertheless, it would be possible for participating member states to adopt such a tax at the national level for regulatory purposes. Regarding high frequency trading, this issue falls, at EU level, under the remit of financial services legislation and should be addressed in that framework if relevant.



Technical issues on the economic impact of the FTT²⁵

1. Impact on financial markets

As a **general premise**, it shall be noted that **potential distortions of the FTT, as for any tax, depend on its design features**, meaning that the effects of the FTT shall not be assessed irrespective of the specific design features of the proposal. National experiences in the introduction of the FTT as well as the longstanding and thorough technical debate carried out over the past 10 years at the EU level on the proposal for an EU FTT, provide us enough material to identify those design features that would limit distortions to the market and possible avoidance of the tax. These features appear to be: the issuance principle, the broad base and the low tax rate, together with certain exemptions and exclusions (in particular primary equity issuance and market makers). The tax currently under discussion appears to include all such features (except for a broad tax base, which is however made broader with the possible inclusion of derivatives on shares).

Furthermore, **to the extent that the EU is in need of identifying new revenue sources, possible distortions arising from the FTT shall be compared** not only with a non-FTT scenario, but also **with the possible economic distortions that may arise from introducing alternative forms of taxation**, of which there is possibly no existing experience that would enable us to assess its impact on an empirical basis. On the other hand, identifying revenues by increasing taxation on well-known tax bases, such as labour or corporate income has been already proven by economic literature to have detrimental effects on growth (CFR. Brys et al, 2016).

Coming to the FTT, as to **liquidity** concerns, **from an economic theory perspective**, there is **no unanimous consensus in the literature** as to the impact of the FTT on the liquidity of markets. Some argue that it depends also on the market micro-structure and the measure of liquidity that is used (Subrahmanyam, 1998, Dupont and Lee, 2007), whereas more recent theoretical work finds an increase in the bid-ask spread (Thöni, 2020). Furthermore, **in the current EU proposal the**

²⁵ This note has been prepared by Paolo Acciari and Vera Santomartino, members of the Italian delegation to the EU enhanced cooperation working group on Financial Transaction Tax.

exemption of market makers addresses the possible effect of the FTT on liquidity. Biais and Rochet (2020, preliminary and incomplete) study the introduction of the FTT in a theoretical model under an optimal tax mix perspective and find that, under certain conditions, introducing a FTT could allow to increase fiscal revenue without creating more distortions.

From an **empirical perspective**, results in the literature on the effect of an FTT on liquidity are **also not convergent**. **Two empirical studies can be mentioned on the effect of the Italian FTT on liquidity**. Cappelletti, Guazzarotti and Tommasino (2016) and Ruhl and Stein (2014) studied the impact of the Italian FTT on liquidity by looking at the bid-ask spread and **found a decrease in liquidity** (i.e. an increase in the bid-ask spread). These studies also found an increase in market volatility. Cappelletti, Guazzarotti and Tommasino used non taxed stocks (stocks below the market capitalization threshold) as control groups whereas Ruhl and Stein performed the analysis by comparing results for Italian stocks with that of British stocks as a control group.

However, **studies carried out on the French FTT reach different conclusions**.

Capelle-Blancard (2017) assessed the impact on liquidity and volatility of the French FTT. As to liquidity, two liquidity measures are assessed, the bid-ask spread and the liquidity ratio. A **widening of the bid-ask spread was found, but no significant impact on the liquidity ratio (i.e. measure of the change in volumes needed in order for prices to change by 1%, the higher the ratio, the more liquid is the market because it means that the market is able to absorb changes in volumes without affecting prices)**. **No effect on volatility was found**, whatever the measure used. The paper includes a review of the studies carried out on the French FTT, which also found that the tax did not affect liquidity and volatility. Recent empirical work (Parwada, Rui, Shen 2021) finds decreased liquidity for taxed stocks with respect to untaxed stocks.

A possible input concerning liquidity is also represented by the intervention of Avinash Persaud at the Catholic Lisbon University webinar held in 18th June 2020. He pointed out that the FTT at such a low rate would only represent a very small share of average transaction costs, if compared to multiple fees attached to each transaction. While trading costs have gone lower in recent years and consequently the bid-ask spread has decreased, there still exist many different fees unbundled from the bid-ask spread, which represent the highest part of the transaction costs for investors. This means

that a transaction tax would proportionally hit much more speculators, who operate in platforms without fees, than ordinary investors²⁶.

As to the impact on the **cost of equity financing**, **transactions involving financial instruments in the primary market are exempt in the current proposal**, therefore the FTT should not dramatically affect equity financing, as it only involves the secondary market where speculators operate.

On this issue, Matheson (2011) states that for **stocks that have wider bid-ask spreads (meaning less liquid) and longer average holding periods the impact of the FTT on the cost of capital is low**. Moreover, Colliard and Hoffman (2017) found that with the introduction of the French FTT market participants with a long investment horizon increased their holdings in affected securities relative to short-term investors, and adjustments only occurred for the most liquid stocks, thereby showing that also with reference to most liquid stocks investors strategies were affected, favoring long investment horizon investors.

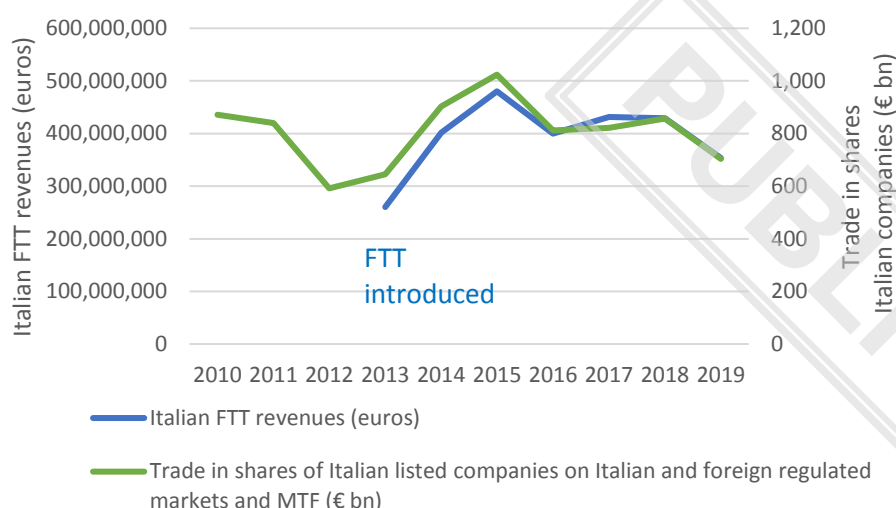
Finally concerning the impact of the Italian FTT on the national financial market, the graph below shows that **with the introduction of the FTT in 2013, the trade in Italian shares has increased for three following years, disproving any feared negative effect on trade volumes**²⁷. The graph also suggest that the trend in the FTT revenue is substantially in line with that of the trade in shares of Italian companies. The fall in FTT revenues in 2019 (-17.6%) appears to reflect the decrease in the trading volume of shares of Italian listed companies in the same year (-17.9%).²⁸

²⁶ A more detailed explanation can be retrieved in the video of Persaud's registered presentation, available on the social networks of the Lisbon Catholic University: <https://www.facebook.com/CatolicaTax/videos/3949676048439139> and in Persaud's article on Vox: <https://voxeu.org/article/financial-transaction-tax-feasible-and-desirable-if-done-right>.

²⁷ However, it cannot be ruled out that this increase in volumes in regulated markets is driven by the lower tax rate on transactions taking place on regulated markets with respect to transactions taking place over-the-counter, with a possible shift of transactions from OTC to regulated markets (CFR. Cappelletti, Guazzarotti and Tommasino, 2016)

²⁸ The fall in the trading volume of Italian listed companies might possibly reflect the uncertainties over global financial markets arising from the escalation in international trade tensions in 2018. The Economic Bulletin n. 4/2019 issued by the Bank of Italy reports that, especially in August 2018, shares prices experienced a consistent fall explained by global dynamics and particularly the trade tensions between the US and China.

Italian FTT revenues and trade in shares of Italian companies, 2010-2019



Note: For the year 2013 revenues were only collected for the period October-December due administrative reasons (institution of the tax code for paying the tax in October).

Source: Italian FTT revenues data, Consob statistics (National authority for the supervision of financial markets)

2. Italian FTT revenue and breakdown by category

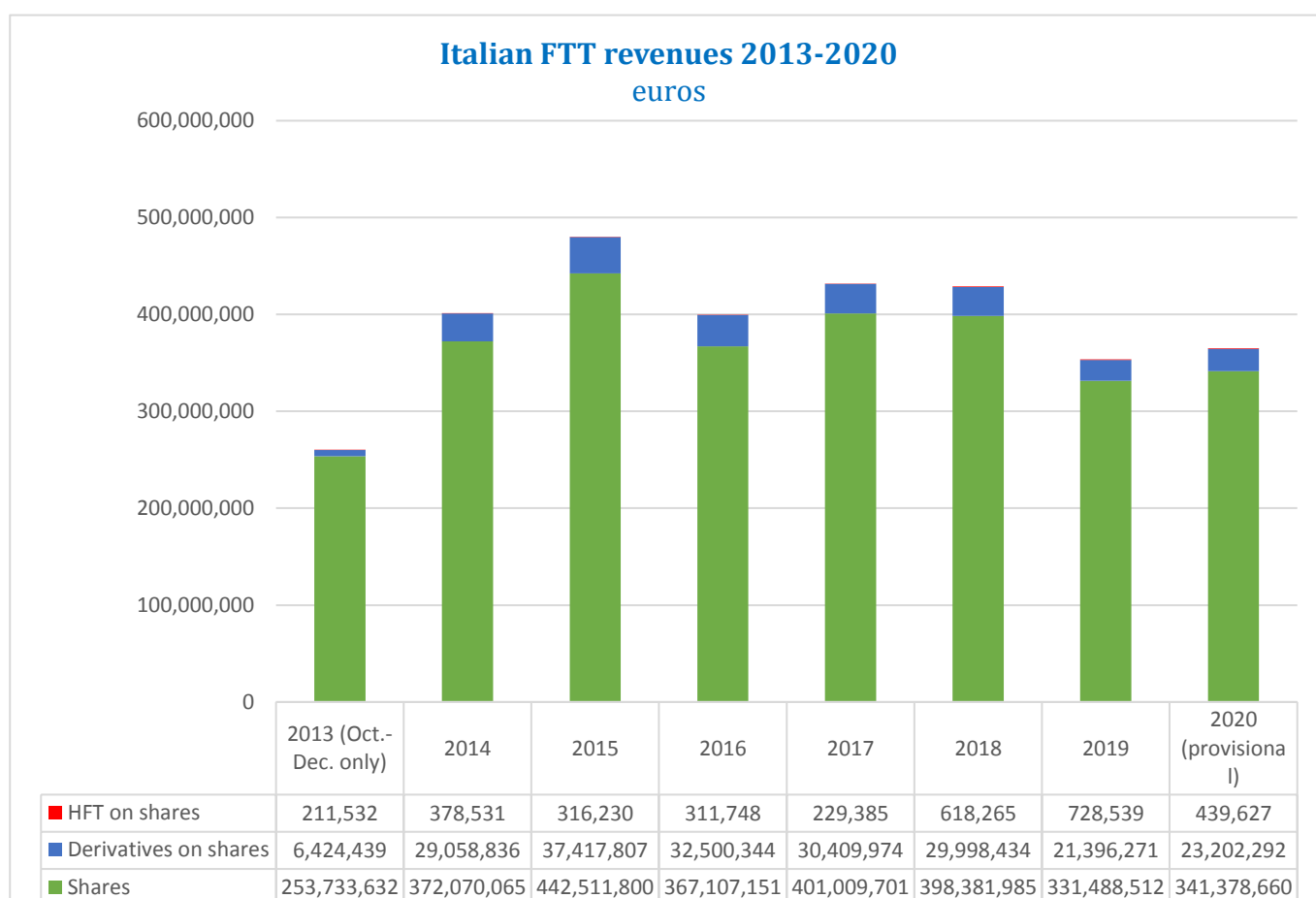
As next table and next graph shows, using data taken respectively from FTT tax returns and from tax revenues data, tax revenues from derivatives represent little less than 10% of the total Italian FTT revenues on average. When observing the tax base, the derivatives quota is higher than the shares quota, meaning that the tax rate on derivatives has been settled at a quite low level.

Revenues from High Frequency Trading represent a negligible amount of the FTT revenue; this result is not unexpected as those operations, if taxed, become largely no longer cost-effective.

FTT tax base and tax liability, tax year 2017

Component	Tax base		Tax liability		Effective tax rate (Tax due/Tax base)
	Value (€ mln)	Share of total (%)	Value (€ mln)	Share of total (%)	
Shares	341,086	27%	385	93%	0.113%
Derivatives on shares	915,222	73%	29	7%	0.003%
HFT on shares	1,443	0.11%	<1	0.04%	0.012%
Total	1,257,752	100%	415	100%	

Source: Italian FTT tax returns, tax year 2017



Source: Italian FTT revenues data

3. Other information

Cost of collecting the FTT

In the paper by Professor Pichler (used as a reference by the Austrian Minister Gernot Blümel in its letter to Ministers of Participating Member States) reference is made to the **costs of collecting the FTT borne by the banks**.

On this point it is important to underline that, **at present, even banks established in those Member States that do not have an FTT in force have a role in collecting and remitting the tax on transactions in shares of those Member States that do apply an FTT** (for example Italy and France).

Furthermore, the **harmonization of the tax would actually represent an improvement for banks** compared to the current situation, since they would only have to deal with one single system. In case of failure of the enhanced cooperation some countries could decide to implement their own FTT rendering compliance even more complex for banks.

As to the **impact for the tax administration**, according to information from the Italian Revenue Agency, the costs for the implementation of the FTT are very modest (initial costs of around € 20 thousand and managing costs of around € 70 thousand on an annual basis).

Possible review based on impact analysis of the FTT

Preoccupations over the possible distortions raised by the introduction of the tax could be concretely addressed in a properly drafted review clause, providing for the periodical examination of the impact of the FTT on the proper functioning of the internal market, the financial markets and the real economy.

Rome, 29th January 2021

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