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Brussels vows to fight Tobin tax hurdles

By Alex Barker in Brussels

A 40-year campaign for a global Tobin tax hit a brick wall and attempts to revive it at as a pan-EU tax failed. Yet these setbacks have barely dented the ambition of Brussels, which sees itself on the cusp of a transaction tax with global reach.

Spurred on by the eurozone's biggest economies promising to impose a joint levy, the European Commission on Thursday unveiled a blueprint for them to collect up to €35bn a year from 2014, catching trades executed anywhere from Singapore to São Paulo.

Financial groups are aghast at its implications but at the same time sanguine about its prospects: even if the 11 interested eurozone states muster the political will to back such an ambitious plan – something diplomats say is unlikely – the challenge of implementation is formidable.
"Don't buy the hype, this remains a pipe dream," a senior industry lobbyist said. "Whatever emerges will look nothing like this."

Collecting revenues, for instance, would rely on co-operation from governments and financial groups outside the tax zone – something that does not seem forthcoming. Washington objects to a tax that "harms US investors in the US", big banks are preparing lawsuits and the UK and Luxembourg are warning that the plan may breach EU treaties.

While national transaction taxes, such as stamp duty in the UK, are not new to the financial world, the wide span and legal inventiveness of the propoese Brussels tax is unmatched. It would be applied to trades executed or ordered by any bank, dealer or group established in the tax area; on financial products issued in the tax area; and on any trade completed within the tax area. In theory Japanese banks trading Siemens depository receipts in New York – or buying Apple shares on behalf of a French client – will be forced to pay tax to Berlin or Paris. Goldman Sachs International, for example, is London based but registered in various eurozone states where it acts as a dealer – a position that may make it immediately liable for the tax on billions of euros of business.

So wide is the tax net, EU officials argue that the only way completely to avoid it would be to cut off all business with the eurozone's economic heart – a market "too big to be neglected". Tax-shy banks, in other words, would be forced to abandon all their French, German, Italian and Spanish clients.
Enforcement – working out what transactions took place, who originated deals and whether they were liable – is, according to the commission, possible through the EU's accumulated regulations and tax agreements. The UK and others are likely to disagree. In addition non-EU states would still have voluntarily to help execute a tax that they object to as extraterritorial.

Mark Boleat, policy chairman at the City of London Corporation, the local government body for the UK capital's financial district, echoed the industry's concerns. "It is important that the extraterritorial reach of this levy does not impose double or multiple taxation on legitimate activity outside this region, or lead to any form of trade protectionism," he said.

The necessary political support for the tax may hinge on arguments over the economy. The financial sector is banking that the eurozone will curb its plans because of fears that the levy would damage growth and disrupt markets. Italy and Spain and others will face warnings that the tax would hurt their fragile sovereign and corporate debt markets and raise the cost of capital for business.
The commission acknowledges that, like any tax, the Tobin levy will hit growth. But it argues that 85 per cent of transactions take place "purely between financial institutions": the low rates and

handful of exemptions in the proposal would blunt the impact of the tax on savers, pensioners and the real economy.

The political benefits of talking about a tax on the financial sector are clear. Whether the 11 eurozone members will accept the risks of implementation is an open question.