FINANCIAL TRANSACTIONS TAX

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ABSTRACT

A Financial Transaction Tax is a levy placed on a specific type of monetary transaction for a particular purpose. The concept has been most commonly associated with the financial sector, it is not usually considered to include consumption taxes paid by consumers.

A transaction tax is not a levy on financial institutions. It is charged only on the specific transactions that are designated as taxable. So if an institution never carries out the taxable transaction, then it will never be subject to the transaction tax. This tax is neither a financial activities tax, nor a "bank tax", for example. This clarification is important in discussions about using a financial transaction tax as a tool to selectively discourage excessive speculation without discouraging any other activity (as John Maynard Keynes originally envisioned it in 1936).

Transaction taxes can be raised on the sale of specific financial assets, such as stock, bonds or futures; they can be applied to currency exchange transactions; or they can be general taxes levied against a mix of different transactions. Like Securities transaction tax, Currency transaction tax, Bank transaction tax, automated payment transaction tax. The financial transaction taxes implemented around 40 countries that in operation i.e. Belgium, Colombia, Finland, France, Greece, India, Italy, Japan, Peru, Poland, Singapore, Sweden, Switzerland, Taiwan, United Kingdom, United States and others.
The aim of the FTT was to raise revenue to ensure the financial sector pays a ‘fair share’ of the cost of the crisis and to reduce the speculative trading that allows the financial sector too much power over the productive economy. The Transaction tax reduces price instability. Such a tax would have the beneficial effects of curbing instability introduced by speculation, reducing the diversion of resources into the financial sector of the economy, and lengthening the horizons of corporate managers. Transaction Tax should be different for delivery and non-delivery based purchase of shares and bonds, instead of the flat rate of all securities, “The proposed Transaction Tax will have a negative impact on traders. There should be a differential rate for delivery and non-delivery-based transactions, otherwise transaction tax to pull down the markets.

**KEYWORDS:** Activities tax, Bank Tax, Speculation, Financial Assets, Curbing, Diversion.

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**INTRODUCTION**

Every transaction has tax implications. Prepare yourself to reduce the risks - and potentially enhance the opportunities.

"Financial instruments" include bonds, derivatives, shares, securities and units or shares in collective investment undertakings. "Financial institutions" include banks, collective investment schemes and pension funds. The definition, however, also includes persons (ie non-financial entities) carrying out certain financial activities (such as deposit taking, lending or financial leasing) where the average annual value of their financial transactions constitutes more than 50% of their overall average net annual turnover. It is this wider limb of the definition that could bring non financial institutions such as treasury companies into the scope of FTT.

**HOW WILL FTT WORK?**

Transactions will be taxed at 0.1% for shares and bonds, units of collective investment funds, money market instruments, repurchase agreements and securities lending agreements, and 0.01% for derivatives. These are proposed minimum rates and participating member states would be free to apply higher rates if they wanted.

The tax would have to be paid by each financial institution involved in the transaction. It will become chargeable for each financial transaction at the moment it occurs.

**WHEN IS IT LIKELY TO COME INTO EFFECT?**

It is proposed that FTT should apply from 1 January 2014 although the participating member states must agree unanimously before FTT can be implemented. The implementation timetable suggests that the participating member states need to adopt and publish the provisions of the FTT by 30 September 2013.
EXAMPLES OF FINANCIAL TRANSACTIONS TAXES IN PRACTICE

- Selected examples of countries currently using some form of a Financial Transactions Tax

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<th>Equity Transactions</th>
<th>Derivatives</th>
<th>Corporate bonds</th>
<th>Government bonds</th>
<th>Currency Transactions</th>
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1) Established in legislation although only comes into effect if all EU countries introduce a currency transactions tax.

2) Rate temporarily reduced to 0% for 2009.
3) Recently removed tax on cash withdrawals.

4) CPMF was not renewed in 2007

OBJECTIVES OF STUDY

1. Strengthen the Single Market by reducing the number of different national approaches to financial transaction taxation.

2. Ensure that the financial sector makes a fair and considerable contribution to public revenues.

3. Support regulatory measures in encouraging the financial sector to engage in more responsible activities, geared towards the real economy.

4. Harmonizing legislation concerning indirect taxation on financial institutions.

5. To create appropriate disincentives for transactions that does not enhance the efficiency of financial markets, there by complementing regulatory measures to avoid future crises.

METHODOLOGY

Information has been sourced from books, articles, various websites. This research paper is based on secondary data for finalization of views and opinions.

FINDINGS

1. A tax on financial transactions could effectively increase the cost of capital to business firms.

2. The increase in costs could reduce investment and subsequently GDP growth rate.

3. Revenue yield is the key driver behind all taxes.

4. It helps in reducing price instability.

5. Tax transaction intends to systematic regulation of nation.

6. Transaction tax reduces business profits and increase cost.

7. Transaction tax will provide large amount spending money which will add fire to inflection.

8. Indian economy will be at its knees.

9. It will create a massive black money/underground economy using hawala/ gold/ cryptocurrency.
SUGGESTIONS

1. Tax base should be made on both national as well as international basis.

2. Tax Transaction must be Introduced to track unaccounted money which in turn helps to trace its source and destination.

3. The countries should use bank/transaction taxes for expediency which would replace them with more efficient and progressive taxes.

4. It is concluded that more frequently traded shares are stronger affected than low-turnover shares. Therefore the tax revenue capitalizes at least to some extent in lower current share prices.

5. The presence of even very small transaction costs makes continuous rebalancing infinitely expensive. Therefore, valuable information can be held back from being incorporated into prices.

6. The financial transaction tax is not an instrument that is capable of distinguishing between "desirable" short-term trading strategies and the less significant share of "undesirable" ones.

CONCLUSION

- It will fail to raise the revenues needed for the Government to function.
- Its incidence will fall on the poorer and lower sections the economy (the rich will pay much less than they do today).
- It will reduce savings in the economy.
- It will reduce investment and harm business.
- It will increase prices.
- It will create a massive black money/underground economy using hawala/ gold/ cryptocurrency.
- It will harm India's banking system by preventing it from providing a range of innovative products.
- It will bring Indian economy to its knees.

There has been NO NATION IN THE WORLD which has relied solely on a bank credit tax – and for very good reason. The countries which did use bank/transaction taxes for expediency have mostly abandoned/replaced them with more efficient and progressive taxes.
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