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# TAXATION OF THE FINANCIAL
# SECTOR IN THE EUROPEAN UNION
# – AN ATTEMPT TO FIND
# THE BEST SOLUTION

## Abstract

The purpose of this paper is to assess the proposals of taxation of the financial sector and to identify the advantages and disadvantages of each proposal.

This paper is based on the actual reports of international economic organizations (International Monetary Fund, European Commission), statistical data and a number of analyses carried out by economists across a number of geographies.

This paper identifies the most common types of taxation imposed upon the financial sector, and provides discussion of their costs and the revenues they are likely to bring. Such estimates can be seen as valuable research material, and they often justify the conceptual reasoning for application of such tax.

**Keywords**: *financial transaction tax, financial activity tax, bank taxes, financial crisis.*

**JEL classification**: *H20, H21, H25, G150.*

## Introduction

The last financial crisis, the role of financial institutions and the public aid to the financial institutions, have triggered many ideas of additional new taxes on financial institutions. The main aim of this article is to assess the proposals of the financial activity tax, financial transaction tax and the different bank taxes. The work defines and shows the macroeconomic consequences of the introduction the taxes for financial institutions, financial market stability and the public finance.

## 1. Theoretical background of the financial sector taxation

As can be expected, discussions concerning the taxation of the financial sector gain momentum during economic crises. The concept of financial taxation was first created after the Great Depression of the 1930s and developed over the following decades. Countries have applied such taxes with varying degrees of success. Financial sector taxation was first presented by J.M. Keynes in the *General Theory of Employment, Interest and Money*. J.M. Keynes proposed to introduce a tax on capital transactions on the stock market. He argued that this would help reduce the scale of speculation, stating that "[…] the introduction of a substantial government transfer tax on all transactions (which) might prove the most serviceable reform available, with a view of mitigating the predominance of speculation over enterprises" (Keynes, 1936, p. 160).

However, it was not until after the breakdown of the Bretton Woods system in the early 1970s that the financial sector taxation attracted serious attention of economists and policymakers. J. Tobin recommended the implementation of a tax on the purchase of foreign currencies and securities in foreign currencies in order to limit currency fluctuations. He proposed "[…] an internationally uniform tax on all spot conversions of one currency into another. […] The tax would particularly deter short-term financial round-trip excursions into another currency" (Tobin, 1978, p.155).

The recent global financial crisis has once again highlighted the need to reduce short-term speculative transactions and increase the resilience of the financial system (Millar, 2012, p. 11), causing renewed consideration of the financial sector taxation. Proponents of that kind of taxation argue that the financial transaction tax (FTT) could generate significant public revenue. IMF estimated the revenue from FTT of 1.0% of over $ 200 bn annually if levied globally on stock, bonds and derivative transactions. Revenues from levying a 0.5% Tobin tax on the spot and derivative transactions in the four major trading currencies were estimated at $ 20-40 bn (International Monetary Fund, 2010, p. 19).

The literature describes the experiences of many G20 countries, which implemented a tax on security transactions between 1990 and 2009. France, Japan, Germany and Italy, which resigned from the taxation of financial transaction during this period, had until that point collected FTT revenues equal to 0.2% of their respective GDPs. In the UK, South Africa, South Korea and Switzerland, the FTT revenues were higher still, in the range of 0.2%-0.7% of GDP. The largest share of revenue from FTT to GDP, at 1%-2% of GDP was in Hong-Kong and Taiwan (Matheson, 2011, p. 10). The broadest coverage among the G-20 countries is in Argentina, which taxes payments into and from current accounts, and in Turkey, which taxes all receipts by banks and insurance companies. (Claessens, Keen, Pazarbasioglu, 2010, p. 17).

The impact of the FTT on economy and the potential to generate revenues may therefore differ significantly, depending on the construction of the tax and its coverage (eg. worldwide, a group of countries or the individual countries).

## 2. Types of the financial sector taxation

### 2.1. Financial transaction tax

Financial transaction tax is a turnover tax, and covers financial instruments transactions (Dec, Masiukiewicz, 2013, p. 39). FTT would be applied to all fi-

nancial transactions, both those carried out on the organized markets as well as over-the-counter (OTC). It would be levied at a relatively low rate and would apply each time the underlying asset was traded (European Commission, 2010, p. 10).

In the literature, there are two formulas of financial transaction tax:

- A broad based FTT (FTT1) applies to trade in stocks, bonds, derivative transactions on exchanges as well as OTC traded instruments. The tax base for simple instruments such as stocks and bonds is the value of the transaction and in case of derivatives the contract value. The FTT1 has a very broad tax base due to the inclusion of derivatives. The high leverage of certain derivatives has two effects. On the one hand, taxing the notional value creates a large tax base. On the other hand, the tax payment is large compared to the actual price paid for the contract. Taxing the notional value could lead to double taxation in the case where the underlying is traded and taxed at the spot market. According to European Commission an alternative way of taxing derivatives is to tax the actual price, however, this would significantly reduce the tax base.

- A narrow based FTT (FTT2) applies only to transactions in stocks and bonds, mainly due to the problems associated with the valuation of derivatives and the controversy concerning the determination of the tax base (European Commission, 2010, pp. 10-11; Dec, Masiukiewicz, 2013, p. 39).

The two potential FTT tax bases are shown in the Figure 1.

**Figure 1. Ideogram of financial transaction tax**
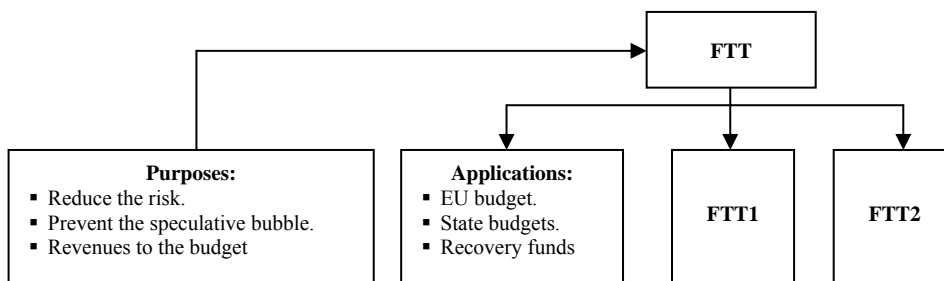


Source: Based on: Dec, Masiukiewicz (2013, p. 40).

## 2.2. Financial Activity Tax

The IMF proposed introduction of a financial activity tax (FAT). The FAT is a turnover tax. The main objective of the FAT is levy on the activities undertaken by the financial institutions, but not on market transactions. The FAT would be levied on the sum of profits and remuneration of the financial institu-

tions. Depending on its construction, this tax could increase the efficiency of the market and curb excessive risk-taking. An important objective of the FAT is to correct the excessively low taxation of the financial institutions resulting from the VAT exemption (Dec, Masiukiewicz, 2013, p. 37). The FAT would be similar to a tax on rents in the financial sector if the tax base contained only high levels of remuneration and with the profit component also defined properly, to in effect exclude a normal return to capital (Claessens, Keen, Pazarbasioglu, 2010, p. 20).

The way in which remuneration and profits are defined could make a significant difference to both the revenue yield of the FAT and the economic impact of this tax (Keen, Krelove, Norregaard, 2010, p. 118).

The IMF proposed three alternative versions of the FAT (International Monetary Fund, 2010, pp. 22-23; European Commission, 2010, pp. 11-12):

- The addition method FAT (FAT1) – in a broad version of the FAT the tax base would be the profit, minus capital formation, plus wages. In other words, the tax base would be the net cash flow, i.e. with full expensing of capital investment, but before deduction for financing costs. Such a tax has been used in some countries in sectors exempt from VAT (this system is known as the addition method VAT). The FAT could therefore lead to a reduction of the high wages in the financial sector.
- The rent-taxing FAT (FAT2) would tax rents only, i.e. remuneration and cash-flow profit above a defined level of profit. The problem is to define the appropriate profit threshold.
- The risk-taxing FAT (FAT3) would tax excess return resulting from the excessively risky activities. The threshold is set at a level based on what is considered as excessive return to (average) equity. This version of the FAT would discourage excessive risk taking.

The Figure 2 illustrates the concept of the FAT.

**Figure 2. Ideogram of financial activity tax**
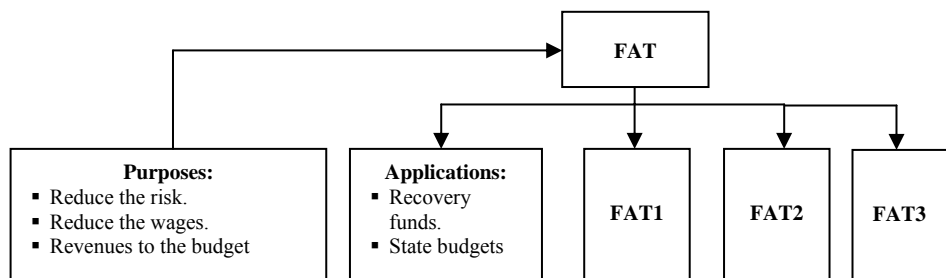


Source: Ibid. (p. 38).

## 2.3. Levies on financial institutions

The purpose of the bank levy or stabilization fees (quasi-tax) could be the reduction of risk, or collecting funds for the repair funds (or state budget) during a crisis (Dec, Masiukiewicz, 2013, p. 42).

To that end, several countries have proposed or established bank levies, aiming to recoup the costs of the recent crisis, as well as provide a buffer against future crises. The proposals differ in the construction and purpose of the accumulated proceeds. On the one hand, the proceeds of the levy could accumulate in a fund. On the other hand, they could go to the general government revenues. Indeed, the governments of Germany, France, Italy, Sweden, the U.K., and the U.S., and the European Commission have recently proposed levies on their financial service industries (Claessens, Keen, Pazarbasioglu, 2010, p. 11).

The IMF proposed the introduction of a Financial Stability Contribution (FSC). The FSC would be levied on all financial institutions. Proceeds from the FSC would go to a special fund to facilitate of weak institutions or alternatively constitute general government revenue (International Monetary Fund, 2010, p. 5).

Such FSC or bank levy would consist of two elements. The main part is the fee to establish a reserve for the fiscal costs of direct aid to the financial sector, which would help nudge institutions to assume a more risk averse stance. The second element would be a permanent commission for the availability of the credit line to ensure that all financial needs could be fulfilled, even in the case where receipts collected from the first part of the fee proved insufficient (Juszczyk, Snarski, 2011, p. 52). The two FSC schemes are shown below.

**Table 1. Summary of types of financial stability contribution**

| FSC | Objective | Frequency | Received by | Based on |
|---|---|---|---|---|
| ex-ante levy | pay for expected financing needs and costs of resolution, help reduce excessive risk-taking | continuous, with reassessment over time in light of other reforms aimed at reducing systemic risks | resolution fund or general revenue | benefit from financial stability, risk of fiscal costs and externalities |
| ex-post charge | pay for financing needs and costs of resolution in excess of ex-ante proceeds | temporary, post-crisis (until unexpected losses are recouped) | general revenue | actual loss experiences |

Source: Based on: International Monetary Fund (2010, p. 30).

The literature also discusses a number of other possible levies on financial institutions (Juszczyk, Snarski, 2011, pp. 52-53), including:

- the fee for co-creation of systemic risk,
- the systemic risk charge,
- the tax on short "wholesale" liabilities.

## 3. The cost and revenues of given types of taxes

### 3.1. Financial transaction tax

According to S. Schulmeister, M. Schratzenstaller and O. Picek (2008) the introduction of FTT will increase transaction costs by 0.2%-0.3% in spot transaction and 0.003%-0.005% in derivatives. However, the introduction of FTT would also decrease the volume of financial transactions. For example, if the FTT was implemented with a tax rate of 0.1%, the volume of spot transactions in the stock and bond market is estimated to decline by 10% and 5%, respectively. The trading volume of exchange-traded derivatives as well as of OTC transactions is estimated to decline between 70% and 80%. By contrast, a tax rate set at 0.01% of the trading volume would have no effect on the volumes of spot transactions in the stock and bond market, but would cause trading volume of derivatives to decline by 20%-30% (Table 2).

**Table 2. Assumptions about transaction costs and the reduction of trading volume in response to the introduction of a transaction tax (simulation was based on data from year 2008)**

| Transactions | Transaction costs in % | Reduction of trading volume in % due to a transaction tax of | | |
|---|---|---|---|---|
| | | 0.1% | 0.05% | 0.01% |
| Spot transactions on exchanges | | | | |
| *Stocks* | 0.300 | 10 | 5 | 0 |
| *Bonds* | 0.200 | 5 | 3 | 0 |
| Exchange traded derivatives | | | | |
| *Stock index* | 0.005 | 70 | 60 | 20 |
| *Interest rates* | 0.003 | 80 | 70 | 30 |
| *Foreign exchanges* | 0.004 | 75 | 65 | 25 |
| *Commodities* | 0.005 | 70 | 60 | 20 |
| OTC | 0.003 | 80 | 70 | 30 |

Source: Based on: Schulmeister, Schratzenstaller, Picek (2008, p. 48).

According to the estimates made by the S. Schulmeister, M. Schratzenstaller and O. Picek (2008), an FTT tax rate of just 0.01% would result in an annual global income of $ 234 bn, including $ 128.6 bn from the tax on exchange-based derivative transactions, $ 97.1 bn from tax on OTC transactions, and $ 8.4 bn from tax on spot transactions on exchanges. The highest revenue from FTT would come from Europe and North America.

**Table 3. Hypothetical transaction tax receipts in the global economy in $bn (simulation was based on data from year 2008)**

| | Tax rate | Spot transactions on exchanges | Derivatives transactions on exchanges | OTC transactions | All transactions |
|---|---|---|---|---|---|
| World | 0.1 | 76.2 | 381.3 | 277.3 | 734.8 |
| | 0.05 | 40.0 | 281.1 | 208.0 | 529.1 |
| | 0.01 | 8.4 | 128.6 | 97.1 | 234.0 |
| Europe | 0.1 | 31.3 | 120.7 | 169.3 | 321.3 |
| | 0.05 | 16.3 | 89.5 | 127.0 | 232.8 |
| | 0.01 | 3.4 | 41.2 | 59.2 | 103.9 |
| North America | 0.1 | 31.9 | 223.2 | 58.4 | 313.6 |
| | 0.05 | 16.9 | 165.4 | 43.8 | 226.1 |
| | 0.01 | 3.5 | 76.1 | 20.4 | 100.1 |
| Asia and Pacific | 0.1 | 11.2 | 34.2 | 46.6 | 92.0 |
| | 0.05 | 5.9 | 24.0 | 34.9 | 64.8 |
| | 0.01 | 1.2 | 10.3 | 16.3 | 27.8 |
| Other | 0.1 | 1.7 | 3.2 | 3.0 | 7.9 |
| | 0.05 | 0.9 | 2.3 | 2.3 | 5.4 |
| | 0.01 | 0.2 | 1.0 | 1.1 | 2.2 |

Source: Ibid. (p. 70).

## 3.2. Financial Activity Tax (FAT)

There is no doubt that the revenue potential of the various forms of FAT will differ across countries. Fiscal efficiency will depend on the wage structures of their respective financial sectors, their relative size and profitability (Claessens, Keen, Pazarbasioglu, 2010, p. 67). Table 4 shows aggregate national account data for the financial sectors of the OECD countries and suggests the size of the potential base under the various forms of FAT.

**Table 4. Financial activity taxes – potential tax base (as % of GDP)**

| Country | FAT1 | | | FAT2 | | FAT3 | | |
|---|---|---|---|---|---|---|---|---|
| | Profits (1) | Capital for-mation (2) | Wages (3) | Tax base (4)=(1––2+3) | "Surplus" wages (5) | Tax base (6)=(1––2+5) | Profit in excess of 15% ROE (7) | Tax base (8)=(5++7) |
| Australia | 3.2 | 0.7 | 3.8 | 6.4 | 0.5 | 3.0 | 0.4 | 0.9 |
| Austria | 2.1 | 0.8 | 2.7 | 4.0 | 0.3 | 1.7 | 1.5 | 1.8 |
| Belgium | 2.2 | 0.8 | 2.8 | 4.2 | 0.3 | 1.8 | 1.1 | 1.5 |
| Canada | 3.0 | 1.3 | 3.9 | 5.6 | 0.5 | 2.2 | 0.3 | 0.8 |
| Denmark | 1.8 | 0.4 | 2.5 | 4.0 | 0.3 | 1.8 | 0.4 | 0.7 |
| Finland | 1.1 | 0.3 | 1.2 | 1.9 | 0.2 | 0.9 | 0.0 | 0.2 |
| France | 1.4 | 0.8 | 2.7 | 3.3 | 0.3 | 0.9 | 0.5 | 0.8 |
| Germany | 1.5 | 0.3 | 2.3 | 3.6 | 0.3 | 1.5 | 0.2 | 0.5 |
| Hungary | 2.1 | 0.3 | 1.9 | 3.6 | 0.2 | 2.0 | 0.6 | 0.9 |
| Iceland | 3.2 | 0.9 | 4.2 | 6.5 | 0.5 | 2.8 | 3.3 | 3.8 |
| Ireland | 5.9 | 0.6 | 3.2 | 8.4 | 0.4 | 5.7 | 1.4 | 1.8 |
| Italy | 1.7 | 0.4 | 2.3 | 3.6 | 0.3 | 1.6 | 0.1 | 0.4 |
| Japan | 4.6 | – | 2.2 | 6.8 | 0.3 | 4.9 | 0.1 | 0.4 |
| Korea, Republic of | 4.5 | 0.6 | 2.5 | 6.4 | 0.3 | 4.2 | 0.2 | 0.5 |
| Luxembourg | 14.9 | 0.7 | 9.0 | 23.2 | 1.1 | 15.3 | 4.6 | 5.7 |
| Netherland | 2.7 | 1.1 | 3.3 | 4.9 | 0.4 | 2.0 | 0.2 | 0.6 |
| Norway | 1.8 | 0.4 | 1.4 | 2.7 | 0.2 | 1.5 | 0.2 | 0.3 |
| Portugal | 3.8 | 1.6 | 2.6 | 4.8 | 0.3 | 2.6 | 0.2 | 0.5 |
| Spain | 2.1 | 0.7 | 2.1 | 3.5 | 0.3 | 1.7 | 0.7 | 0.9 |
| Sweden | 1.2 | 0.6 | 1.9 | 2.5 | 0.2 | 0.9 | 0.4 | 0.7 |
| UK | 2.8 | 0.7 | 3.9 | 6.1 | 0.5 | 2.7 | 0.6 | 1.1 |
| US | 3.2 | 0.9 | 4.4 | 6.6 | 0.5 | 2.8 | 0.2 | 0.7 |

Note:   The FAT1 and FAT2 tax base for Japan may be overestimated because fixed capital for-mation is not reported in OECD STAN and thus is not deducted from the base. Data for Canada reflects year 2005; for all other countries year 2006 is used.

Columns:

(1) Gross operating surplus and mixed income in the financial intermediation sector as a share of GDP.

Due to lack of data availability, profit for Canada is calculated as gross value added at basic prices minus labor costs (equivalent to the gross operating surplus and mixed income, plus other tax-es net of subsidies on production).

(2) Gross fixed capital formation in the financial intermediation sector as a share of GDP.

(3) Labor costs in the financial intermediation sector as a share of GDP.

(5) The wage differential in calculated by applying an adjustment factor of 12% to the wage in the sector.

Source: Based on: Claessens, Keen, Pazarbasioglu (2010, p. 69).

The column 4 contains the estimated FAT1 base, which is calculated as the sum of a profit component ((column 1) – (column 2)) and the total wage costs (column 3). Size of the tax base varies between countries, from 1.9% of GDP in Finland to 8.4% of GDP in Ireland, and 23.2% of GDP in Luxembourg. The average FAT1 base is around 4.7% of GDP (excluding Luxembourg).

The FAT2 base estimates are shown in column 6. The estimations use the same profit component as FAT1, but the wage component (column 5) assumes 12% of wage costs to be "surplus"[*]. The FAT2 base is on average only half the size of the FAT1 base. Size of the FAT2 base varies between countries, from 0.9% of GDP in Finland, France and Sweden to 5.7% of GDP in Ireland and 15.3% of GDP in Luxembourg.

Column 8 contains the estimated FAT3 base. The estimations use the same wage component as FAT2, but calculate the profit-related part (column 7) as the excess of after-tax net income in the banking sector over the benchmark return on equity (ROE) of 15%. The average FAT3 base is smaller than the FAT2 base, and equal to 1.2% of GDP (Claessens, Keen, Pazarbasioglu, 2010, p. 68).

The revenue potential of the FAT depends on the type of FAT that is chosen and, of course, on the underlying assumptions. The forecasts of revenue for national budgets of the EU Member States from various forms of FAT are shown in Table 5. According to them, the highest value of budgetary revenues is provided by FAT1, followed by FAT2 and FAT3.

**Table 5.   Revenue estimates for the various forms of FAT (based on 2008 GDPs), tax rate 5% (in €m and as % of GDP)**

| Countries | FAT1 | | | FAT2 | | | FAT3 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tax base % GDP | Tax revenue % GDP | Tax revenue mio EUR | Tax base % GDP | Tax revenue % GDP | Tax revenue mio EUR | Tax base % GDP | Tax revenue % GDP | Tax revenue mio EUR |
| Belgium | 4.2 | 0.2 | 724 | 1.8 | 0.1 | 310 | 1.5 | 0.1 | 259 |
| Germany | 3.6 | 0.2 | 4492 | 1.5 | 0.1 | 1872 | 0.5 | 0.0 | 624 |
| Denmark | 4.0 | 0.2 | 466 | 1.8 | 0.1 | 210 | 0.7 | 0.0 | 82 |
| Spain | 3.5 | 0.2 | 1905 | 1.7 | 0.1 | 925 | 0.9 | 0.0 | 490 |
| Finland | 1.9 | 0.1 | 175 | 0.9 | 0.0 | 83 | 0.2 | 0.0 | 18 |
| France | 3.3 | 0.2 | 3215 | 0.9 | 0.0 | 877 | 0.8 | 0.0 | 779 |
| Hungary | 3.6 | 0.2 | 190 | 2.0 | 0.1 | 106 | 0.9 | 0.0 | 47 |
| Ireland | 8.4 | 0.4 | 764 | 5.7 | 0.3 | 518 | 1.8 | 0.1 | 164 |
| Italy | 3.6 | 0.2 | 2822 | 1.6 | 0.1 | 1254 | 0.4 | 0.0 | 314 |
| Luxembourg | 23.2 | 1.2 | 456 | 15.3 | 0.8 | 301 | 5.7 | 0.3 | 112 |
| Netherlands | 4.9 | 0.2 | 1460 | 2.0 | 0.1 | 596 | 0.6 | 0.0 | 179 |
| Austria | 4.0 | 0.2 | 564 | 1.7 | 0.1 | 240 | 1.8 | 0.1 | 254 |
| Portugal | 4.8 | 0.2 | 413 | 2.6 | 0.1 | 223 | 0.5 | 0.0 | 43 |
| Sweden | 2.5 | 0.1 | 418 | 0.9 | 0.0 | 150 | 0.7 | 0.0 | 117 |
| UK | 6.1 | 0.3 | 5537 | 2.7 | 0.1 | 2451 | 1.1 | 0.1 | 998 |
| Sample EU(27) | 4.14 | 0.21 | 23600.9 25920.7 | 1.78 | 0.09 | 10116.1 11110.5 | 0.79 | 0.04 | 4479.4 4919.7 |

Note:   The estimates assume no behavioural response. For the FAT2 and FAT3, the IMF takes 40% of the wage differential between the top 25% earners in the financial sector and the top 25% earners in other sectors. This "surplus" is 12% of wage costs. For the FAT3, the benchmark for the return on average equity above which profit would be taxed is 15%. The EU27 figures are retrieved by taking the GDP-weighted average values of the sample for the tax base and applying them to EU27 GDP for 2008.

Source: Based on: European Commission (2010, p. 22).

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[*]   The explanation is in the note to the Table 5.

## 3.3. Financial Stability Contribution (FSC)

D. Weder di Mauro provides analysis of the impact of the introduction of the FSC at different rates, using the difference of the liabilities and deposits as the basis for his consideration. The analysis included the impact of different level of the FSC on:

- interest rates of loans,
- return on equity (ROE),
- interest rates of loans and return on equity (ROE) (Weder di Mauro, 2010, p. 96).

In the first variant of the analysis – the impact of different levels of the FSC on interest rates of loans – the tax is passed on to the customers and they incur the consequences. Table 6 shows the link between the interest rates for customers and the increasing levels of FSC.

**Table 6. Impact of different levels of the FSC on interest rates of loans (in %)**

| Level of FSC | 0.00 | 0.05 | 0.10 | 0.15 | 0.20 | 0.30 | 0.40 | 0.50 | 0.60 |
|---|---|---|---|---|---|---|---|---|---|
| Interest rates | 6.26 | 6.29 | 6.32 | 6.36 | 6.39 | 6.46 | 6.52 | 6.59 | 6.65 |
| Change in interest rates | 0.00 | 0.03 | 0.07 | 0.10 | 0.13 | 0.20 | 0.26 | 0.33 | 0.39 |

Source: Based on: Weder di Mauro (2010, p. 101).

In the second variant of the analysis, when banks take on the implications of FSC, it is followed by a significant decline in their return on equity (Table 7), as would be intuitively expected.

**Table 7. Impact of different levels of the FSC on return on equity – ROE (in %)**

| Level of FSC | 0.00 | 0.05 | 0.10 | 0.15 | 0.20 | 0.30 | 0.40 | 0.50 | 0.60 |
|---|---|---|---|---|---|---|---|---|---|
| ROE | 15.00 | 14.42 | 13.84 | 13.27 | 12.69 | 11.53 | 10.38 | 9.22 | 8.07 |
| Decrease in ROE | 0.00 | 0.58 | 1.16 | 1.73 | 2.31 | 3.47 | 4.62 | 5.78 | 6.93 |

Source: Ibid. (p. 103).

**Table 8. Impact of different levels of the FSC on return on equity – ROE and interest rates of loans (in %) – intermediate case**

| Level of FSC | 0.00 | 0.10 | 0.20 | 0.30 | 0.40 |
|---|---|---|---|---|---|
| ROE | 15.00 | 14.50 | 14.00 | 13.50 | 13.00 |
| Interest rates | 6.26 | 6.29 | 6.33 | 6.37 | 6.41 |
| Decrease in ROE | 0.00 | 0.50 | 1.00 | 1.50 | 2.00 |
| Change in interest rates | 0.00 | 0.04 | 0.07 | 0.11 | 0.15 |

Source: Ibid. (p. 104).

The third variant includes the analysis of the impact of the FSC on both the return on equity (ROE) and loan interest rates (Table 8). It shows a situation where the costs of FSC are borne by both the financial institutions and the end customers. In this case, the decline in the return on equity is lower, as is the increase in the interest rates on loans.

## Conclusions

In conclusion, it is clear that any consideration of imposing financial sector taxation requires a careful and wide-ranging analysis of the associated costs and revenues.

The main reasons for taxing the financial sector are:

- increases in public revenues,
- reduction in riskiness of the financial sector,
- compensation the exemption of the majority of financial services from VAT,
- economic and financial crises.

This paper presents the various forms of financial sector taxation: financial transaction tax, financial activity tax and the different bank taxes. The FTT and the FAT represent two different approaches to taxation. Both FTT and FAT are turnover taxes, but FTT base is the value of transaction whereas the FAT base is made up of profits and remunerations. As a result of this, the FTT achieves a comparable amount of revenues as FAT using a significantly lower tax rate. Undoubtedly, the introduction of financial sector taxation would provide high budget revenues, but its costs would also be felt by end customers.

The financial activity tax, financial transaction tax and the different bank taxes will probably fulfill their fiscal purpose, but fail to achieve their steering function and will not discourage financial institutions from enacting risky financial transactions and thus to prevent future crises.

Moreover, the financial sector taxation will only be effective under the condition that similar tax regimes are introduced globally, or else the financial sector will simply pursue tax arbitrage opportunities in countries with more favorable tax regimes.

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