IMF PROPOSALS ON A BANK TAX

The IMF was tasked by G20 leaders to prepare a report looking at "the range of options countries have adopted or are considering as to how the financial sector could make a fair and substantial contribution toward paying for any burden associated with government interventions to repair the banking system". Two proposals in the IMF's report are:

1) **A Financial Stability Contribution (FSC) -** a flat rate levy on liabilities of all financial institutions (not just banks) but which would later be adjusted to reflect risk – relating to size, interconnectedness and substitutability. The levy would pay for the fiscal cost of any future government support. It could accumulate into a resolution fund to facilitate resolution of weak institutions or be paid into general revenue.

2) **A Financial Activities Tax (FAT)** – This proposed tax would be based on the sum of bank profits and remuneration and paid to general revenue.

The proposals focus on two objectives: recovering bail out funds and insuring against future crises. Options for calculating contributions are discussed, with some support given to calculating on the basis of historic balance sheets so as to minimise tax avoidance and reduce distortion.

The report states that "international cooperation would be beneficial" but notes that that full uniformity is not required, rather "broad agreement on the principles, including the bases and minimum rates of the FSC and FAT", to promote a level playing field. The report notes that "actions are also needed to reduce current tax distortions that run counter to regulatory and stability objectives", and suggests that aggressive tax planning by the sector could be addressed more firmly. The report rejects proposals for a financial transaction tax.

Timetable and next steps

The report was discussed and found favour among G20 Finance Ministers in Washington DC on 22/23 April. A final set of proposed measures, including more detail on design will be delivered to the G20 Leaders' summit on June 26/27 in Toronto. Final agreements are likely to be required via the G20 November summit in Seoul. Should the measures be agreed by the G20, next steps will be to implement them via national legislation. The work will also be influenced by further consultations and the joint IMF/FSB/BCBS work on the cumulative impact of regulation and tax burdens on the financial sector.

UK Political Reaction

In the UK there has been broad cross party support for the proposals, but views vary on whether they can be implemented unilaterally if there is no global agreement, and on the appropriate use of the proceeds.

International

The EU Commission released a paper earlier in April 2010 on sources of innovative financing. Conclusions appear to favour a levy on certain bank assets over a tax, and suggest that whilst an agreed international framework is desirable the EU might want to explore moving forward unilaterally.

- Canada is in strong opposition to any sort of bank levy, arguing that such a move would penalise its bank which are seen to have 'behaved responsibly'.

- In a statement on April 20, Japan's finance minister said the country is not likely follow suit with other advanced countries and tax banks as a way to regulate excessive financial risk.
- Germany has proposed a charge on bank balance sheets that would raise €1.2bn ($1.6bn) annually to fund future bailouts.
- France is due to unveil its own plan for a bank levy shortly although it would, in principle, be in favour of a transaction tax.
- UK, France and Germany appear in broad agreement over the need for a levy but the EU Commission is pushing for harmonisation of such approaches, including as part of crisis resolution framework funding.