Funding the Future

The IMF moving in the right direction on taxing banks

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The IMF has issued its draft report to the G20 on taxing banks. This is an issue about which I have concern, having written extensively about it earlier this year.

The IMF report says:

This is an interim response to the request of the G-20 leadersâ€šÃ„¶..

Many proposals have been put forward to recover the cost of direct fiscal supportâ€šÃ„Ã® some of which have been implemented. Proposals for the government to recover these costs include levies related to selected financial sector claims and taxes on bonuses and specific financial transactions.

It continues:

The least distortionary way to recover the fiscal costs of direct support would be by a â€šÃ„Ã²backward-looking’ charge, such as one based on historical balance sheet variables. This would define a fixed monetary amount that each institution would owe, to be paid over some specified period and subject to rules limiting the impact on net earnings.

Which is intriguing as this is an argument for direct and not indirect taxation. have the IMF seen the light at last on this issue?

On it goes:

Measures related to levies and taxes should: ensure that the financial sector meets the direct fiscal cost of any future support; make failures less likely and less damaging, most importantly by facilitating an effective resolution scheme; address any existing tax distortions at odds with financial stability concerns; be easy to implement, including in the degree of international coordination required; and, to the extent desired, require an additional fiscal contribution from the financial sector in recognition of the fact that the costs to countries of crises exceed the fiscal cost of direct support. A package of *measures may be needed to attain these objectives. Measures that impose new costs on financial institutions will need to reflect and be coordinated with regulatory changes under consideration.*

Again, this represents an enormous change: the emphasis is on international tax coordination — previously unknown and unthinkable.

As they then say:

After analyzing various options, this interim report proposes two forms of contribution from the financial sector, serving distinct purposes:

Ã”Ã‡? A “Financial Stability Contribution” (FSC) linked to a credible and effective resolution mechanism. The main component of the FSC would be a levy to pay for the fiscal cost of any future government support to the sector. This component could either accumulate in a fund to facilitate the resolution of weak institutions or be paid into general revenue. The FSC would be paid by all financial institutions, with the levy rate initially flat, but refined over time to reflect institutions’ riskiness and contributions to systemic riskâ€šÃ„Ã®such as those related to size, interconnectedness and substitutabilityâ€šÃ„Ã®and variations in overall risk over time.

Ã”Ã‡? Any further contribution from the financial sector that is desired should be raised by a “Financial Activities Tax” (FAT) levied on the sum of the profits and remuneration of financial institutions, and paid to general revenue. International cooperation would be beneficial, particularly in the context of crossborder financial institutions.

I have recommended both taxes here — and especially the latter in “[Taxing Banks]” — which went out on a limb on the issue of pay — and on this blog in saying, often, that banks should pay an extra 10% corporation tax.

Time and again I and the Tax Justice Network have emphasised the need for cooperation,. of course.

But there’s still more the IMF agrees with us on:

Unilateral actions by governments risk being undermined by tax and regulatory arbitrage.

Oh yes.

And this is amazing:

Effective cooperation does not require full uniformity, but broad agreement on the principles, including the bases and minimum rates of the FSC and FAT. Cooperative actions would promote a level playing field, especially for closely integrated markets, and greatly facilitate the resolution of cross-border institutions when needed.

A while ago we talked about a World tax organisation and people laughed. They won't now.

But then add these too:

Actions are also needed to reduce current tax distortions that run counter to regulatory and stability objectives.

The pervasive tax bias in favor of debt finance (through the deductibility of interest but not the return to equity under most tax regimes) could be addressed by a range of reforms, as some countries already have done.

Both are essential. both are greatly aided by tax haven abuse.

But even more on tax havens follows:

Aggressive tax planning in the financial sector could be addressed more firmly.

I couldn't agree more.

I'd add I also agree that:

More analysis will be undertaken to assess and refine these initial proposals.

Talk to us some more, I'd say.

But let's not get euphoric. There's nothing on bank losses. And amazingly financial transaction taxes have been ignored — incorrectly in my opinion. This reform needs an indirect tax component like a financial transaction tax. And we need country-by-country reporting to identify where bank profits are. Codes of Conduct are needed, and need to be enforced too.

But let's welcome this as a first step. More is needed. But the IMF has listened to issues and moved into territory in which it will feel uncomfortable but in which it is welcome as a new player.

Now, let's deliver it.