

Funding the Future

Memo to President Sarkozy: you can ignore Cameron's obj..

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Much of Europe wants a financial transaction tax (FTT). The reason why is obvious: they need the money.

The UK is adamant it will have no such tax. It says it will harm the City of London. Of course that's not true: it's the City of London that harms us, but Cameron ignores that fact and in the process spites the plans for an FTT to be discussed by Nicolas Sarkozy at the G20 later this week.

How can the impasse be broken? Well, let me suggest a simple solution. It's called VAT.

VAT is, of course, an EU tax. And it is an EU tax with a difference: it can be imposed by majority vote. Unanimity is not required here. And that's the critical point. Sarkozy can change VAT with dissent from the UK.

The relevance of that simple fact is this: VAT is not charged on financial dealing and it could be. Of course that is not quite what an FTT is expected to be, but the reality is that most financial dealing is about margin trading. So too are many other trades, such as second hand car dealing, and we have worked out ways to apply VAT to such dealings. OK, financial dealing is more complex - but it is also incredibly well tracked. So, it would be quite possible to apply VAT to the margin on bank dealing.

And they could not get round it easily. First, the rate would be low, and so too would be input tax as a result.

Second, relocating can be overcome - it would simply be deemed that settlements through Europe were located in Europe. And then what are called the 'self supply' rules would apply - the bank would have to register and charge itself the tax and pay it over.

I'm not saying banks would not try to avoid the charge: they would. But quite a lot could be done to prevent that happening.

I haven't worked out all the detail. I don't need to do so. All I need to do is tell Nicolas Sarkozy he has a way of getting what he wants from Cameron. The stick might be

enough.