

# What we already know about taxes on financial transactions

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Recently, the possibility of introducing a tax on financial transactions (FTT) as a way to cover part of the pension deficit has come up again in the Spanish public debate. These types of fees are applied to some types of monetary transactions, such as, for example, purchases of securities, stock market flotations or, even, simple operations by individuals on their current accounts. Are we really being innovative with this? Not in the slightest. This type of tax is not new, and in fact in Europe it has been discussing its introduction for several years now. To be able to give an opinion on its desirability, it is instructive to take a look at an experience that we have very close to us, since FTTs were introduced in Latin America some time ago.

In that region, the most commonly-used financial transaction tax is one which taxes bank transfers, including withdrawals and cash receipts. With the main objective of increasing tax collection, many countries adopted a tax of this kind: Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico, Peru and Venezuela. In general, when they were introduced they were announced as emergency and temporary taxes, to increase tax collection. Among their advantages: they are simple taxes with which immediate tax revenues are obtained. This is particularly relevant in countries where tax administrations are weak, and where there are high levels of informality in the economy.

However, we must not forget that the undesirable effects have been enormous. Firstly, these taxes have generated a widespread incentive to financial disintermediation, causing a negative impact in terms of development and economic growth. If the transformation of savings into investment, through credit, is made more difficult, then a very important source of financing of economies is lost. Secondly, to avoid paying the tax, the use of cash became even more attractive, which increased informality, and there was an outflow of capital into accounts abroad. Thirdly, as a consequence of the above, the collection in many of the countries (for example, Mexico, Bolivia or Colombia) decreased because the revenue base contracted. Fourthly, some studies found evidence of an increase in the price of credit to mitigate the negative impact on banks' profitability. And fifthly, strong tax distortions were generated when, for example, taxes had to be paid on transfers used to pay other taxes.

Although in many of the countries these taxes are still in force, especially due to the difficulty of finding alternative sources of income, there is a growing debate about the distortions they generate. For example, in the tax reform recently presented in Argentina, there is a proposal to eliminate its FTT: the tax on cheques. Which is very good news for the Argentinian economy.

In general terms, FTTs have a questionable tax efficiency, which could translate into lower economic growth. This is due, among other reasons, to the fact that bank customers end up bearing part of the load, and that liquidity in the markets decreases. The consequences could be perceived, for example, in the lower use made of some financial instruments, in the transmission of monetary policy or in the competitiveness of companies that find their access to markets made more difficult.

Nor does it seem appropriate that this measure should be applied at national level, but that it should at least

apply in the euro zone. The progressive integration of European economies is facilitating flows between countries and, therefore, the relocation of savings, so that only a tax at European level could alleviate this negative effect.

In economics, experiments are expensive, especially when we have examples of countries in which they have not worked. Spain needs an efficient system of taxation which does not distort economic transactions and which does not harm any sector or market in particular. Only then will it be possible to continue on the path of recovery which our economy is following, which is what will ultimately pay our pensions.

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