STAMP OUT Poverty

MONEY FOR GOOD

THE CASE FOR A COMPREHENSIVE UK FINANCIAL TRANSACTIONS TAX

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Introduction

In the post-pandemic period, it is essential we do not repeat the mistaken policy that defines the response to the 2008-09 financial crisis, namely austerity. Starving the economy of public investment at the exact time that it needed to be stimulated is now widely recognised as an ill-conceived economic response, which resulted in unnecessary unemployment, severe social suffering and a cumulative underinvestment in public services, which left the country ill-prepared when the Covid-19 crisis struck.

Learning the lessons of the past, it is clear that we need to take an opposite approach, providing sufficient spending going forward to strengthen our health and social care systems and support schools in the provision of education lost to students through the course of the pandemic. For this, it is necessary to consider additional sources of income for the Government.

The economic shock of the last eighteen months is also an opportunity to re-envisage and improve. To realise the goal of a full economic recovery with well-funded public services, we need to consider the successful taxes we already have and what potential they may offer. The UK currently has a Financial Transactions Tax (FTT) in the form of a 0.5% tax on the purchase of UK-listed shares, which presently raises in the region of £3.5bn annually. This tax, whose roots lie in the centuries-old stamp duty, if brought into the 21st century, could yield substantially increased receipts for the Treasury.

This paper argues that by closing loopholes and expanding the tax base to include the trading of financial assets that have to date escaped taxation, a comprehensive FTT would generate an additional £6.5 billion every year. At the same time, by disincentivising the most high-volume, low-margin financial activity, it would help boost long-term value investing in the UK and the finance sector's international competitiveness as a haven of transparent, stable markets.

Supporting government spending post Covid-19

The Covid-19 pandemic has presented an historic challenge to the UK economy, which experienced one of the world's biggest declines in output, and the largest in the UK for over three hundred years – almost 10% of GDP in 2020. This compares to the 7% fall in GDP during the 2008/09 financial crisis. Expectations are that beyond the economic shock and uncertain recovery, 'scarring' due to decreased investment and consumption, closed businesses and lost skills will hamper GDP and productivity growth for some time to come.[1]

The economic impact of the pandemic has not been felt evenly throughout society, with households in the poorest fifth of society seeing a disproportionately greater drop in income, averaging 15%,[2] and with increased savings rates due to lower consumption concentrated in higher income groups.[3] Higher rates of illness and mortality, more precarious work, and the financial pressures of children remaining off school have all contributed[4] with estimates of an additional 700,000 people falling into poverty during the pandemic.[5] Rising unemployment has hit young people hardest.[6] Ensuring low income groups are supported to recover incomes, and already disadvantaged children do not suffer from missed learning, must be a priority.

1 'Coronavirus: Economic Impact', House of Commons Library. 1st June 2021.
2 'The Effects of coronovirus on household finances and financial distress', IFS. 29th June 2020.
3 'Coronavirus: Economic Impact', House of Commons Library. 1st June 2021.
4 'Poverty, health and Covid-19', *British Medical Journal*. 12th February 2021.
5 'Poverty during the Covid-19 crisis', Legatum Institute. 30th November 2020.
6 'Coronavirus: Economic Impact', House of Commons Library. 1st June 2021.

That the impact on GDP and incomes was not more severe can be attributed to government programmes to subsidise wages, reduce or defer tax payments, and provide loans, guarantees and grants to business, alongside increased welfare eligibility and payments for households.

Such a response has necessitated increased spending – estimated at £340bn across 2020/21 and 2021/22 – and including the cost of the furlough scheme and the public health response to Covid-19.[7] The rise in borrowing to allow this, especially at a time of decreased tax receipts, and further support provided through quantitative easing from the Bank of England, again mirrors the initial response to the 2008/09 financial crisis.[8]

However, what happens next is equally important. Actions by the Chancellor such as the current public sector pay freeze and limiting the pay award for nurses to just 3% are concerning as they suggest a willingness to repeat the mistakes of the decade of austerity following the previous financial crisis.

Decreasing government spending and borrowing as part of an ill-judged focus on deficits and debt has proven to be both unnecessary and counter-productive in supporting economic regeneration, let alone delivering an equitable recovery. Any attempts to 'claw back' the costs of the furlough and other support schemes would be misguided at this time.

It has been estimated that austerity cuts reduced GDP growth every year for a decade from 2010, lowering GDP by almost 5% by the end of the decade and costing households more than £3,600 in 2018/19 alone.[9] Taking demand out of the economy just when it was needed, instead ultimately increased pressures on Government non-discretionary spending.[10]

Again, the impact of austerity was disproportionately felt by low income groups, due to cuts to public services and welfare payments, and resulted in increased homelessness and food poverty, particulary impacting working families.[11] Public services from health, social care and education to police and prisons saw funding levels fall far below need, and their performance – and those who depend on them – all suffered.[12]

In particular, the decade-long funding crisis in our NHS saw the UK woefully under-prepared for the pandemic. As demand rose due to our ageing population and cuts to social care, in the ten years before the pandemic we instead lost one in ten hospital beds,[13] taking us to the lowest number of doctors, nurses and beds per person in the western world and leading to annual winter crises.[14] A GP surgery closed every two days between 2013 and 2017 in England[15] and waiting lists exceeded the Government's own targets, only to worsen dramatically as the impact of Covid-19 hit.[16]

The post-pandemic era is an opportunity for a different kind of recovery. There is a growing consensus on the need for more sustainable and comprehensive funding for public services. Policy makers should reassess the economic merit of stimulating growth through counter-cyclical spending. They should further support this spending through looking to new, practical, sustainable and progressive sources of revenue.

In this regard, an updated Financial Transactions Tax (FTT) can make a significant and progressive contribution, of £6.5 billion every year. £2.7 billion[17] of this could, for example, cover a fair 10% pay award for the 1 million nurses and NHS staff, who have seen their wages fall by this amount in real terms under austerity, and who have risked their own health and worked long hours in response to covid.

7 'Coronavirus: Economic Impact', House of Commons Library. 1st June 2021.
8 'Coronavirus: Economic Impact', House of Commons Library. 1st June 2021.
9 'Austerity hitting UK economy by more than £3,600 per household this year', New Economics Foundation. 21st February 2019.
10 'Austerity: there is an alternative', IPPR. 2019.
11 'Report of the Special Rapporteur', UN Human Rights Council. 23rd April 2019.
12 'Which public services face the biggest pressures ahead of the spending round?', Institute for Government. 2020.
13 2010–2018 data, NHS, 2018. 14,223 beds lost from 144,455 total.
14 Spending on and availability of healthcare resources, Kings Fund. 5th May 2018: 2.8 doctors per 1,000 population (3.6 average), 7.9 nurses (below average), 2.6 beds (4.4 average).
15 GP Online. 20th June 2017. 671 GP practices closed over 2013-16 inclusive.
16 Nuffield Trust, 2020. 90% target to be seen within 18 weeks – not met since 2015, fell from 80% in 2019 to 50% mid 2020.
17 £2.7 billion cost to Government adjusted to account for increased tax receipts, consumption and job retention levels following pay award 'The Net Exchequer Impact of Increasing Pay for Agenda for Change Staff'. London Economics. 18th January 2021.

The Global Dimension

Cuts have also fallen on the UK's official development assistance (ODA) budget, slashed by £4bn in response to Covid-19 pandemic. This marks the first time in eight years that the UK will fail to meet its target of spending 0.7% of GNI on helping some of the poorest people in the world.

Such a cut is unjustifiable, particularly at the present time. It is vital that international development aid is forthcoming, to help developing countries respond to the pandemic, by delivering vaccines for all and supporting the most vulnerable in the short term. And in the longer term, to prevent lost levels of health, education, jobs and income on a permanent basis.

Despite the rhetoric, the UK is in a position to maintain its 0.7% commitment to ODA. As a new source of revenue, a comprehensive UK FTT would raise £6.5bn a year and, after delivering a fair pay award for health workers in the UK, would deliver almost £4bn to restore our aid spending to what it was. As a tax on one of the wealthiest groups in society, an FTT would also ensure it is those most financially able to contribute, who are called on to play their part in meeting the needs of some of the poorest people in the world.

What is a Financial Transactions Tax (FTT)

An FTT is a small levy on trades of financial assets, which can include equities, corporate bonds, foreign exchange and various kinds of derivatives.

The UK already has an FTT in the form of a 0.5% tax on the purchase of UK-listed shares[18] (known as 'Stamp Duty on Shares', 'Stamp Duty Reserve Tax, or SDRT). In 2019/20 this raised £3.5bn.[19]

Over 40 countries currently have a unilateral FTT,[20] raising over $30bn a year.[21] Those with an FTT currently in force include: the UK, European economies, including France (introduced in 2012), Italy (2013), Spain (2021), Switzerland, Belgium and Ireland; financial centres and large economies including Hong Kong, Singapore, Taiwan, South Korea, China and India. The US has collected a small FTT for many decades. Germany is currently one of ten EU countries working to introduce a regional European FTT alongside Austria and Portugal.

Prominent economists such as John Maynard Keynes long ago recognised that a tax on financial transactions can improve the operation of the finance sector, by slowing down trades and stabilising finance.[22] Current high-profile FTT supporters include businessmen Bill Gates and Warren Buffett, Nobel-prize winning economist Joseph Stiglitz and former FSA Chair Adair Turner.[23]

Stamp duty is one of the UK's oldest taxes, introduced in 1694, and has previously been increased to raise revenue, notably during the First World War. The tax is long overdue for an update, given the seismic shifts in the financial sector over the past few decades, which have seen huge new markets develop that at present, are untaxed. It also at present features exemptions that are exploited by large parts of the market.

18 Note that stamp duty in the UK also applies outside of the financial sector: for example, Stamp Duty Land Tax (SDLT) applies to purchases of property or land above a certain price.

19 https://www.gov.uk/government/statistics/uk-stamp-tax-statistics/uk-stamp-tax-statistics-2019-to-2020-commentary UK Government. October 2020.

20 'Financial Transactions Taxes around the world', Center for Economic and Policy Research. 21st September 2020.

21 'Improving Resilience, Increasing Revenue', Inteligence Capital. May 2017.

22 'Financial Transactions: Issues and Evidence', IMF Working Paper, Fiscal Affairs Department. March 2011 (page 12).

23 'FSA backs global tax on transactions', Financial Times. 27th August 2009.

Arguments for a comprehensive UK FTT

The financial sector has a fundamental role in delivering long-term economic growth in the UK, and is a vital source of export earnings. A tax levied per transaction in financial markets can benefit the operation of UK financial markets, and enhance their contribution to UK productivity and their attractiveness to international investors, which is of increased importance following Brexit. It can also help ensure that those most able to contribute to increased government revenues do so.

1. Progressive taxation

Higher income groups tend disproportionately to own financial assets, meaning that a tax on financial transactions is progressive. It would not burden ordinary savers on middle and low incomes, who own relatively few financial assets. And it would include exemptions on the first £1,000 of daily trades in the forex market, for example, to ensure that small traders are not burdened.

Further, the UK financial sector made profits of at least £60bn during the pandemic[24] and does not pay VAT. Prior to the pandemic, the sector had been stabilised by reforms following the 2008–09 financial crisis, and benefited throughout from flexible capital requirements built into the post-crisis regulation[25] and the ability for employees to work from home.[26] The sector's lending risk has also been protected throughout by Government underwriting through schemes including the Coronavirus Business Interruption Loan Scheme, the Bounce-Back Loans Scheme, and the Coronavirus Corporate Financing Facility[27] for the more than £50bn new loans provided by May 2020.[28]

As a result, it has been one of the least affected sectors by the pandemic, with the maximum monthly drop in gross value added from pre-pandemic levels seen in April 2020 of 4.7%, compared with 30.2% in manufacturing and 35.3% in retail. Tax receipts from the UK's existing FTT were higher than forecast, in comparison with dramatic falls in VAT, income and corporation taxes across most sectors.[29] Given this, we argue that the proposal to increase the rate of SDRT and enlarge the tax base to cover further financial assets is affordable and in its application would not create any particular competitive disadvantage. That said, financial firms that undertake the greatest volumes of transactions would pay the greater proportion of the tax receipt.

2. Improving resilience in the financial sector

Over recent decades, financial markets have grown very rapidly in size. In 1995 the value of financial transactions worldwide was 25 times world GDP; in 2007 at their pre-crisis peak the value of financial transactions worldwide was 70 times world GDP.[30]

This increased turnover has been driven by highly leveraged and short term, high frequency traders, including a rise in algorithmic trading.[31] Intermediaries have gravitated towards the creation of complex, ill-understood new assets, and to driving a high level of transactions, on which they can charge commission (known as 'churn'), rather than more traditional brokering practices. Long-term investment has been crowded out, and "short-term trading has become the essence of modern finance".[32] Transactions by long-term investors such as pension funds and insurance companies once represented more than 70% of turnover on the London Stock Exchange. Today that has fallen to 40%.

This increased turnover should not be confused with increased liquidity, which is about diversity of behaviour of market participants. Liquidity requires well capitalised investors who are able to hold assets when they are falling in price, and well researched investors who understand the risks of assets held and intend to hold them for long term gain, as well as intermediaries who are focused on research and information.

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24 'The total tax contribution of UK financial services in 2020', City of London. 5th February 2021.
25 'Covid-19 and the financial system: a tale of two crises', Oxford Review of Economic Policy. 2020.
26 'Coronavirus: Economic Impact', House of Commons Library. 1st June 2021.
27 'Who wins and who pays: rentier power and the Covid crisis' IPPR. May 2020.
28 'Covid-19 and the financial system: a tale of two crises', Giese and Haldane, Oxford Review of Economic Policy. June 2020.
29 'Coronavirus: Economic Impact', House of Commons Library. 1st June 2021.
30 Ibid.
31 'Improving Resilience, Increasing Revenue', Inteligence Capital. May 2017 (page 7).
32 Ibid (page 3).

Without such diversity, we see build up of systemic illiquidity with market participants all behaving in the same way, as happened prior to and during the financial crisis, which can lead to phenomena such as 'flash crashes', when algorithmic traders en masse drive prices to collapse in value in the space of minutes.

A tax levied per transaction would contribute towards readjusting upwards the relative price of trades that create such systemic risks, and so help stabilise markets by encouraging assets to be held for longer periods.

3. Increasing productive investment into the broader economy

An updated UK FTT, in disincentivising short term trading strategies, would incentivise long term value investing, contributing to an increase in productive private investment. This would benefit UK economic productivity, which has suffered in comparison to competitor economies in recent decades.[33] An updated FTT would support the UK post-Covid economic recovery beyond raising revenue for public spending, in encouraging the allocation of private investment to non-financial UK businesses in all sectors.

4. Increased transparency

A comprehensive UK FTT, based on transactions by UK tax residents, would also provide more data and so increase transparency around offshore asset ownership by UK citizens. This would be an important contribution to global efforts towards greater information-sharing and transparency in financial flows.

An updated UK FTT would shine a light on the transactions costs charged to customers of financial intermediares, who despite the developments of recent decades, have not seen the cost of raising finance fall.[34]

Revenue: how much would it raise?

1. A higher rate for equities for non-financial firms

An updated FTT for 2021 would double the rate for UK equity purchases for non-financial firms, from 0.5% to 1%, to help fund the post-covid recovery.

This would raise an additional £2bn a year.

As noted above, there is precedent for increasing Stamp Duty rates at times of pressure on Government revenue – and this principle has already been applied to future UK corporation tax rates. This increase would fall on those able to afford it, at a time of unique pressure on the funding of public services.

The 1% rate proposed remains modest, and would increase the rate to similar levels as those applied in countries including Ireland, Belgium and Finland.[35]

Further, the increase of 0.5% would not lead to a notable reduction in turnover and therefore revenues. Our estimates incorporate higher-end assumptions of price elasticity of demand, and still predict turnover of £400bn annually. And the lack of serious decrease in turnover following the introduction of such FTTs is borne out by the examples in recent years of Italy and France, as summarised by a recent report from the Portuguese Presidency of the EU Council.[36]

2. Closing the 'market maker' loophole

An updated FTT for 2021 would replace the exemption currently in place for financial firms purchasing UK equities, with a discounted rate of 0.2%.

This would raise an additional £700m a year.

33 'GDP per hour worked', OECD. Accessed June 2021.
34 'Improving Resilience, Increasing Revenue', Inteligence Capital. May 2017.
35 'Financial Transactions Taxes around the world', Center for Economic and Policy Research. 21st September 2020.
36 'Financial transaction tax - the way forward', Portuguese Presidency of the EU Council. 12th February 2021, as leaked by Agence Europe in an article from 16th February 2021, available here.

A complete exemption is not appropriate. Financial intermediaries often take ownership of an asset during a transaction, claiming a slice of the value. This value should be taxed. If this ownership is required in order to execute a more complex transaction, the increased systemic risk inherent in the creation of this transaction chain also warrants taxation.

We incorporate higher-end assumptions of elasticity for financial firms (at much higher levels than for non financial firms) and use a discounted rate to reflect lower transaction costs (explained below), and estimate no significant fall in turnover or revenues. Further, much of any reduction in turnover would come from fewer short term, speculative trades, and would represent an economically useful reorientation towards more longer-term value investing.

3. An expanded tax base covering more types of assets

An updated FTT for 2021 would be extended to apply to other asset classes that are at present untaxed.

This would raise an additional £3.8bn a year

This would include corporate bonds, as well as equity, credit, foreign exchange and interest rate derivatives, and foreign exchange. Purchases of government bonds would be exempt to protect government borrowing costs. There would also be several other exemptions for small traders.[37]

For many of these classes, taxation would be a simple extension of the rationale currently applied to the taxation of equities. Equity derivatives are a substitute for already-taxed equities; corporate bonds are similar to equities in that their value is derived from companies; and the value of credit derivatives is derived from debts issued by companies and governments.

In the case of foreign exchange and derivatives, and interest rate derivatives, these markets are some of the largest in the world, and are emblematic of transactions-led finance, in which short-term, destabilising and speculative trading dominates.

In taxing these markets alongside commodities and their derivatives, we are proposing the establishment of a comprehensive UK FTT, employing modest rates, which seeks to remove substitution so maximising revenues. This would also serve to encourage a move towards long term investing without short term investing being unduly penalised, protecting turnover.

Design and implementation

Enforceability

The UK's existing stamp duty is one of the hardest taxes to avoid. The enforceability of any contract transferring title is contingent on the tax being paid. Firms seeking to avoid the tax will face the insecurity and uncertainty of knowing their contracts are not legally enforceable.

The residence principle

For many of the new markets we propose to tax – specifically derivatives – the design of a Financial Transactions Tax is central to securing desirable outcomes. A key principle in the design of a comprehensive Financial Transactions Tax is the 'residence principle', as already used for capital gains tax. This means that the tax is levied on UK tax residents, wherever they execute trades in the world. Use of the residence principle avoids the relocation problem: a UK tax resident shifting the location of a trade could not avoid liability for the tax.

Collection

Modernising the UK's stamp duty by extending the tax to new assets has been made possible by new global tax transparency rules relating to the beneficial ownership of financial assets.

37 Exemptions would be granted to interest rate derivatives under three months' maturity, to avoid impacting cash-like transactions; and for the first £1,000 of foreign exchange transactionss daily per market participant, to ensure that low-frequency, small amount traders are not unduly impacted by the tax.

As well, importantly, as a result of today's technology. An extended UK FTT would be a modern, 21st century tax, capable of being collected automatically due to the common messaging, clearing and settlement systems now used by market participants, allowing automated collection.

Over-the-counter spot forex trades carried out by UK tax residents are largely settled through the Continuous Linked Settlement (CLS) Bank, with others settled through systems linked to the CLS, and with all participants holding accounts with the Bank of England, from which the tax could automatically be collected. There is a common messaging provider, SWIFT, which keeps a record of all transactions and could provide the necessary information to HMRC.

Over-the-counter interest rate derivatives are cleared through London-based SwapClear; the Government could work with SwapClear to provide trading activity data. For other markets, the Government could require the provision of data on UK tax resident traders activity from international exchanges and clearing houses, represented by the World Federation of Exchanges based in London, and that data would be capable of being cross-checked against HMRC returns made by UK tax residents.

Substitution

The more comprehensive a tax in its coverage of classes of financial assets, the lower the chances of avoidance, because options for substitution are removed, and the higher the amount of revenue captured.

An updated UK FTT would apply to trades whether carried out over the counter or on exchange, and on comparable asset classes such as forex spot and derivatives, preventing substition from taxed to non taxed asset classes.

Tax rates

A guide to appropriate tax rates for financial transactions exists in the transaction costs for each.[38] Tax rates should not dwarf transaction costs. The proposed 1% rate on non-financial firms' purchases of equities would be just twice transaction costs, and for corporate bonds, and equity and credit derivatives, it would be equal to transaction costs.

Markets for foreign exchange, their derivatives as well as interest rate derivatives, however, differ significantly. They are much larger and more liquid. Tax rates on transactions in these markets should be set at a more conservative level, at half of existing transactions costs, to avoid impacting these markets unduly.

Financial firms

The vast majority of transactions on financial markets are carried out by financial firms. In derivatives markets, financial firms are responsible for approximately 90% of the volume of transactions.[39] As a result of the huge number of transactions they undertake and accompanying economies of scale, financial firms face significantly lower transaction costs. Tax rates under an updated FTT would apply the same low ratios, largely half of transaction costs, to trades by financial firms, resulting in very low tax rates.

Notional values

An updated UK FTT would apply to the economic value rather than the notional value of a trade. Notional value is the value of the asset underlying a derivative contract, whereas the economic value consists of the actual cash flows exchanged to enter into positions, which ultimately reflect risk. Notional value does not reflect the risk of a contract, and it is this risk that an updated FTT is designed to price more acccurately to discourage excessive risk taking.

38 See 'Improving Resilience, Increasing Revenue', Inteligence Capital. May 2017 and 'Reinforcing Resilience', Inteligence Capital. September 2019, for details on calculating transaction costs across asset markets

39 'Improving Resilience, Increasing Revenue', Inteligence Capital. May 2017

Addressing concerns

1. Will there be a departure of financial firms to other tax residences?

No. A modernised UK FTT would not lead to loss of financial sector firms. The cost of an FTT is a small part of total transactions costs – which include settlement, clearing, research and legal fees. Further, decisions around tax residence are not dictated by a single, marginal transactions cost, but depend on a broad range of other business costs and benefits that are gained through residence in the UK. These include access to clients, strong market infrastructure and regulation, access to and time zone overlap with other markets, the availability of skilled employees and the ability to offer them a high quality of life. Costs vary between financial centres – for example the costs of an initial public offering (IPO) are higher in New York than elsewhere, but this has not led to the flight of business to jurisdictions with lower costs.

Previous tax reforms have also been met by threats of relocation from financial sector firms that have not come to pass – notably preceding the introduction of the 50% income tax rate in 2008. Similarly, the corporate tax rate in Ireland is significantly lower than that in the UK, but again no mass migration of business has occurred.

2. Will this damage the economy in a time of fragile recovery?

No, quite the opposite: an updated UK FTT will help raise revenue for public investment, and redirect private investment into long-term, productive businesses, and away from short term financial speculation.

3. Will this tax penalise pension funds?

Pension funds tend to trade using long-term buy and hold strategies, and therefore will be less affected by a tax levied per transaction, compared to traders engaging in high frequency trades (such as hedge funds).[40] Pension funds may benefit from the increased stability of financial markets brought about by a comprehensive Financial Transactions Tax.

4. Won't the effective tax rate be increased by being levied at each step of transaction chains?

Transaction chains are not always necessary for financial intermediation, such as asset purchases arranged through traditional brokering, where financial intermediaries link buyers with sellers and are compensated via charging a fee. There has been a significant shift away from this model in recent decades, with financial intermediaries purchasing from the market and re-selling assets to clients, claiming a slice of the value, and creating a chain in the process. An FTT would incentivise a return to the traditional model of brokering.

Complex derivatives trades may require chains. However, there are negative externalities imposed on the wider economy by the creation of these transactions chains, as their complex and inter-linked nature poses a 'high risk of systemic contagion'. An FTT would help to internalise the cost of this systemic risk, allowing participants to better measure risk and disincentivising the creation of such chains.

5. Would taxing UK purchases of foreign exchange effect the price of sterling?

An updated UK FTT to include purchases of foreign exchange on wholesale markets by UK tax residents will not lead to a 'run on sterling', since the tax would apply to all currencies equally.

40 As noted in 'Reinforcing Resilience', Inteligence Capital. September 2019 (page 22).

6. Will UK holiday-makers be hit by the forex tax when they exchange currency?

No. The tax on foreign exchange is a tax on the wholesale foreign exchange market, not the retail market.

7. Will this lead to relocation of financial transactions, as happened with the Swedish FTT?

No. The Swedish tax was a brokerage tax, based on location, which could be easily avoided by relocating trades. Using the residence principle means that a UK tax resident would pay the tax proposed, wherever trades occur around the world. Relocating financial transactions would not be a way of avoiding the tax.

8. Is there a link between the challenges facing the UK financial sector following Brexit and an FTT?

Once the Brexit 'Trade and Cooperation Agreement' came into force at the end of 2020, UK financial firms lost their 'passporting rights' – the ability to freely sell services to EU clients. However, the predictions of 100,000 job losses[41] have not been borne out. The number is around 7,000, with the rate having slowed down significantly by March 2021.[42]

Of those firms that have chosen to remain in the UK post-Brexit, a marginal increase in direct transaction costs is not going to tip the scales, as explained above regarding the disincentives for firms to depart to other tax residences. Nor is it likely to make the UK on balance less attractive to non-EU business, as the UK financial services sector repositions itself following Brexit. Conversely, a comprehensive FTT would help build the UK's reputation as a haven for stable, transparent, long-term investment.

Further, our revenue predictions remain robust in the face of relocation of trade execution by EU firms that can no longer trade on UK platforms, as tax liability is based on residency of firms, and not location of trades.

Revenue

Our revenue estimates use turnover figures from 2019 as this is the most recent period for which data is available for all asset classes. It is also the last year before the pandemic, so is more representative of 'normal' financial conditions. The calculations are summarised in the table on page 11.

41 'EU exit could put at risk up to 100,000 jobs', PriceWaterhouseCoopers. 14th April 2016.
42 'EY Financial Services Brexit Tracker', Ernst & Young. 2nd March 2021.

Market	Held by	Untaxed turnover (£b)[43 44]	Proposed tax rate	Transaction costs[45]	Elasticity[46]	Taxed turnover (£b)[47]	Revenue (£b)
Equities (shares)	Non-financial	540[48]	1.00%	0.51%	0.75	400	2.00
	Financial	919[49]	0.20%	0.27%	1.67	347	0.7
Bonds, excluding gilts	Non-financial	35[50]	0.50%	0.36%	0.75	19	0.09
	Financial	319[51]	0.20%	0.21%	1.67	96	0.19
Equity and credit derivatives	Non-financial	114[52]	0.50%	0.49%	0.75	68	0.34
	Financial	1,022[53]	0.20%	0.19%	1.67	275	0.55
Foreign exchange spot	Non-financial	1,510[54]	0.06%	0.12%	0.75	1,116	0.67
	Financial	14,816[55]	0.02%	0.04%	1.67	7,397	1.48
Foreign exchange derivatives	Non-financial	101[56]	0.06%	0.12%	0.75	75	0.04
	Financial	939[57]	0.02%	0.04%	1.67	469	0.09
Interest rate derivatives	Non-financial	270[58]	0.03%	0.06%	0.75	200	0.06
	Financial	3,518[59]	0.01%	0.02%	1.67	1,756	0.18
Commodity spot	Non-financial	21[60]	0.12%	0.24%	0.75	15	0.02
	Financial	234[61]	0.04%	0.08%	1.67	117	0.05
Commodity derivatives	Non-financial	14[62]	0.12%	0.24%	0.75	10	0.01
	Financial	157[63]	0.04%	0.08%	1.67	79	0.03
						TOTAL	**6.50**

43 Methodology to calculate untaxed turnover follows that used in the papers below, with the exception of the notional outstanding to notional turnover ratio, which was updated based on 2019 currency options, available at WFE Statistics Portal.
44 USD to GBP exchange rate 2019 average.
45 Derivations of transactions costs are explained in 'Improving Resilience, Increasing Revenue', Inteligence Capital. May 2017 and 'Reinforcing Resilience', Inteligence Capital. September 2019.
46 Derivations of elasticites are explained in 'Improving Resilience, Increasing Revenue', Inteligence Capital. May 2017.
47 Methodology to calculate taxed turnover follows that used in the papers above, ie the mid-point elasticity method.
48 London Stock Exchange, 2019/20 data.
49 ibid.
50 Financial Conduct Authority, 2019/20 data.
51 ibid.
52 Bank for Internatinal Settlements, H2 2019 data and H2 2019 data.
53 ibid.
54 Bank for Internatinal Settlments, 2019 data.
55 ibid.
56 ibid, also World Federation of Exchanges, 2019 data.
57 ibid.
58 Bank for Internatinal Settlements, 2019 data.
59 ibid.
60 London Bullion Market Association, 2019 data.
61 ibid.
62 Bank for International Settlments, H2 2019 data and World Federation of Exchanges, 2019 data.
63 ibid.

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