SOUTHERN AFRICA TRUST

Financial Transaction Levy and Creation of Fiscal Space to Enable SADC to Finance its Regional Programmes

Southern Africa Trust 2016

Table of Contents

Terms of Reference

In accordance with the Terms of Reference (ToR) below, the Consultant presents the attached Draft Report to SADC Secretariat in fulfilment of the Terms of Reference of the Assignment.

TOR 1 - Chapter 2

Review the literature on financial transaction tax with the view of drawing eventual lessons for SADC's FTT Proposal.

TOR 1 - Chapter 3

Document the trends of financial transaction tax from the global perspective since the global financial crisis in 2008 with the aim of showing that this tax is not unique to developing countries only but universal.

TOR 1 - Chapter 4

Outline SADC's financial transaction tax proposal with the view of demonstrating its feasibility, design, revenue potential, incidence, challenges, and collection mechanism of the tax revenue.

TOR 1 - Chapter 5

Propose recommendations on the development of SADC Regional Resource Mobilisation Framework using alternative sources of income, to aid the effectiveness of SADC in meeting its mandate of resource mobilisation to support regional programs (integration).

Acronyms

AGF	UN High Level Advisory Group on Climate Financing
APT	Automated Payment Tax
ATM	Automated Teller Machine
BIS	Bank of International Settlement
CLS	Continuous Linked Settlement
CPMF	Contribuição Provisória sobre Movimentação Financeira
CTT	Currency Transaction Tax
EU	European Union
FTT	Financial Transaction Tax
G20	Group of 20
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
IMF	International Monetary Fund
OTC	Over-the-Counter
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SIRESS	SADC Integrated Regional Electronic Settlement System
STT	Stock Transaction Tax
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UK	United Kingdom
UN	United Nation
UNFCCC	United Nations Framework Convention on Climate Change
VAT	Value Added Tax
WTO	World Trade Organisation

1. Background and Motivation of the Study

1.1 Background

Since its inception, most of the activities of the Southern African Development Community (SADC) have been implemented using resources from SADC Member States and from Development Partners. This model of funding has not worked well for SADC as it has contributed to most of the activities not being implemented. The situation has worsened over time with the increase of regional activities. For instance in the next five years it is expected that SADC will require approximately US$260 million to fund its regional projects (i.e., coordination of activities, studies, capacity building initiatives as well as consensus meetings). The community will also need US$64 billion to fund regional infrastructure projects. From the total amount of US$64.3 billion required to fund SADC regional projects and activities, only US$43.2 million is currently committed to this budget, and this translates to a financing gap of 99.3%. Furthermore, commitments from Member States and from Development Partners indicate a huge disparity, with only 9.2% of regional projects being funded by Member States while the balance of 90.8% is funded by Development Partners. This situation is not sustainable and if meaningful regional integration is to be achieved, dependence on donor resources needs to be reversed urgently so that the bulk of regional activities are funded by SADC Member States using domestic resources.

To address the growing need for resources alluded to in the preceding section, SADC and its Development Partners adopted the Windhoek Declaration in 2006 to guide cooperation between SADC and Development Partners for the achievement of the SADC socio-economic development agenda (as outlined in the Regional Indicative Strategic Development Plan - RISDP) and the overarching objective of poverty eradication.

As part of implementing the Windhoek Declaration, in August 2008, the SADC Council of Ministers directed the SADC Secretariat to explore sustainable alternative sources of income to minimise the inherent risks of relying heavily on the support from Development Partners (Council Decision of August 2008). This directive was reiterated in March 2015 during consideration of the revised RISDP 2015-2020 and Industrialization Strategy, when Council directed that a concept note on alternative sources of income be developed. The note was developed with the assistance of the Southern African Trust and presented to the Committee of Ministers of Finance and Investment at their meeting in Bulawayo, Zimbabwe in August 2015.

The Council of Ministers endorsed the recommendations made by the Committee of Ministers of Finance and Investment. It was recommended, among others, that the Secretariat constitutes a working group comprising experts from Member States to coordinate work on the development of a SADC Regional Resource Mobilisation Framework and in particular to:

- conduct detailed research into the various options of alternative sources of income, including consultations with relevant structures in Member States, and benchmarking with relevant organisations such as the African Union and other regional economic communities. The research will also include case studies;
- build consensus on the implementable options for alternative sources of income to support regional integration; and
- develop a comprehensive proposal on the SADC Regional Resource Mobilisation Framework and submit it to the Ministers for consideration and recommendation to Council in August 2016.

To advance the work on alternative sources of income and the development of a Regional Resource Mobilisation Framework that would support and catalyse regional integration through provision of viable options to existing mechanisms for addressing structural, economic and development needs, the SADC Secretariat has decided to carry out a research exercise on financial transaction levy (e.g., payments settled outside SADC Integrated Regional Electronic Settlement System-SIRESS). To this end, studying financial transaction tax/levy will not only contribute to a better understanding of the potential of this option in generating alternative income, but will also ensure that consensus is reached on this option.

1.2 The Overall Objective of the Study

The main objective of the study is to analyse financial transaction tax as an alternative measure to boost resource mobilization in the SADC region for financing regional programmes.

The specific objectives of this study are to:

- Analyse how this option can be narrowed down to a feasible proposal for operationalisation;
- Analyse the technical and legal feasibility conditions for this option;
- Analyse the required conditions for agreement that could be implemented by Member States;
- Analyse the conditions needed to implement such a mechanism;
- Identify bodies at national level that could be involved in scoping the feasibility of such a mechanism, e.g., do we need to draw on the cross-border expertise from Central Banks, SADC Bankers Association, and treasury?
- Analyse the economic and financial impact of this option on the integrated payment system and show how the impact can be minimised;
- Analyse how the contributions from this option can be levied on various payments, given the territoriality principle when it comes to such levies;
- Analyse how much of the income will be generated from this option, given the territoriality principle when it comes to this levy;
- Show which parties of the society would bear the financial burden of the financial transaction levy;
- Illustrate the process and timeframe for the implementation of such mechanisms; and
- Make recommendations on the overall regional resource mobilization strategy and how this can be adopted in the country's development plans, strategies and options for promoting or incentivising to contribute financial resources to finance SADC regional programmes on a sustainable basis.

1.3 Structure of the study

This study is divided into six chapters. Chapter 1 provides a general description of the aims and proposed method to conduct the study. Chapter 2 reviews briefly the literature on financial transaction tax and presents three case studies - two from both developed and developing countries, and one at regional level. Chapter 3 is a review of the trends of financial transaction taxes (FTT) since 2008 and their estimated revenues. This is followed by an outline of the SADC's FTT proposal that covers issues of relevancy, design, exemptions, estimated potential of revenue and sensitivity analysis, incidence of FTT, likelihood impact of the tax on equity and income distribution, administrative and legal issues, and collection mechanism of the proposed tax. The study concludes with a brief discussion on the policy recommendation for the development of a SADC Regional Resource Mobilisation Framework using the proposal of mobilising resources from financial transaction (SADC FTT) in Chapters 5.

2. Literature Review on FTT's

2.1 Introduction

A Financial Transactions Tax can be thought of broadly as any tax, fee, duty, etc. imposed by a government upon the sale, purchase, transfer, or registration, of a financial instrument – it is, for the most part, a turnover tax. It can be broadly based, or it can exempt a variety of instruments, or transactions by certain types of traders. It can be an ad valorem tax or a specific tax. This type of tax may broadly include currency transactions (where the application of the tax would need to apply to all trades in the wholesale foreign exchange market), security transactions (taxes usually levied every time a financial security changes legal ownership; securities taxed range from shares and bonds to futures and options), and bank debit transactions (which are usually taxes levied on withdrawals from, or other debits to, bank accounts, including cheque clearance, cash withdrawals and payments on loan instalments).

To every policymaker these taxes have the double attraction of improving the efficiency of resource allocation, but also of potentially contributing to revenue at the same time. Various forms of Financial Transactions Tax (FTT) have often been seen as attractive from this point of view.

In his General Theory Keynes proposed a securities transactions tax (STT) to reduce destabilizing speculation in equities; Tobin's similar currency transactions tax (CTT) dates from 1972 and had the goal of reducing destabilizing currency speculation. The revenue from such an anti-speculator tax could, its advocates have often suggested, be channelled for the purpose of development assistance.

Other forms of FTT also have their advocates who see them as potentially reducing the efficiency costs of the tax system as a whole. Bank debit taxes have been employed in several countries, especially in Latin America. The explosive growth in financial derivative transactions over the past quarter century introduces a range of further possibilities. Capturing these, Feige (1990, 2000) proposed a comprehensive "automated payments tax" (APT), applied at a very low rate, which he sees as replacing a wide range of other taxes and greatly reducing the deadweight cost of the entire tax system.

2.2 Recent Development on Three Different Types of FTT

More recently, Financial Transaction Taxes (FTTs) have again taken centre stage in the policy arena following the collapse of the mortgage- backed securities market and its knock-on effects on the world's financial and economic systems in the crisis that began in mid-2007. Against this background, leading policymakers from several G20 countries have floated the broad based international introduction of an FTT. This time, asset price volatility has been somewhat overshadowed as a target for corrective tax policy in comparison with imprudent or reckless lending and especially the use of over complex financial derivatives as a means of apparently reducing risk while actually increasing it. Over-reliance on extreme maturity transformation in the short-term financing of long-term mortgage-backed securities and other lending was also a key problem in the rapid unwinding of imbalances that proved so dangerous in the onset of the crisis. Regulation of contract types and agent reward structures have been the focus of much policy attention, but a tax solution - even if partial - could also be considered. The enthusiasm for taxing financial transactions means that coordinated international action seems to be available to an extent not known in the past, potentially reducing the leakage that has often been seen as the major hindrance to the implementation of the Tobin tax.

The rest of the section reviews literature on FTTs from the classic perspectives revenue. Undoubtedly there is a significant revenue potential (as indeed has been seen in some countries which have introduced taxation of a limited range of financial transactions).

2.3 Revenue potential of Currency Transaction Tax (FTT)

The financial sector has long been a reliable revenue source for governments even though from time-to-time (as at present) bank failure events have triggered large fiscal outlays to limit depositor losses and protect the smooth functioning of the payments system. Revenue raising has been a key, if not the key, objective of most of the FTTs that have been brought into effect, especially the bank debit taxes of Latin America.

2.3.1 Revenue from Currency Transaction Tax (CTT)

As mentioned above, the Tobin CTT tax was originally conceived of as a corrective tax, but it has increasingly been seen as a suitable revenue source for development assistance. Because of the concentration of foreign exchange trading in just a few international financial centers (according to the latest BIS survey, fully three-quarters of traditional foreign exchange market transactions are conducted in just 6 centers: the United Kingdom, the United States, Switzerland, Japan, Singapore, and Hong Kong), proponents of the Tobin tax as a revenue source have seen it chiefly as being international in its revenue goals and not suitable as a source of national revenue (Spahn 2002). Of course another problem with getting national revenue from the tax is the fact that unilateral tax increases on foreign exchange dealings are likely to result in considerable base migration.

Despite earlier proposals for a CTT tax of as high as 1 percent, a consensus emerged in the literature by the mid-1990s that 0.1 percent should be regarded as a ceiling on CTT rates beyond which they would reduce liquidity too much, thereby deterring international trade (Nissanke 2004). Nissanke examines the revenue potential of rates in the region of 0.01 to 0.02 percent, which she believes would reduce transaction volumes only modestly and generate worldwide annual revenue in the range of US$17–30 billion (on the basis of 2001 transactions). Interestingly Mende and Menkhoff (2003) claim that sorting the Tobin tax proposals by their date of issue reveals that the suggested rates have become lower r over time. Spratt's (2006) version of this tax has a rather comprehensive base said to be over €100 trillion covering all spot and derivative foreign exchange transactions, but he proposes a very low tax rate of just 0.005 percent, designed to raise about €5 billion for development assistance. At this rate the tax should evidently have little effect on speculative flows; hence it does not have a corrective objective.

2.3.2 Revenue from Stock Transaction Tax (STT)

STTs are now as likely to be advocated for their revenue potential as for any dampening effect on speculation. The base of financial instruments of Schulmeister, Schratzenstaller, and Picek (2008) is quite comprehensive for wholesale transactions, applying to spot transactions for stocks and bonds, and derivative transactions - both exchange traded and over-the-counter (OTC). On the other hand, they consider low tax rates, ranging between 0.01 to 0.1 percent of the transaction value. This results in projected revenue yields of up to about 1 percent of GDP for Austria, France, Italy, Belgium, and the Netherlands; 2 percent in Germany; and 13 percent in the United Kingdom. In the latter two countries, exchange traded derivative transactions are important; elsewhere the bulk of the revenue comes from OTC transactions. Schulmeister, Schratzenstaller and Picek do not appear to include cash withdrawals from the banking system as part of the base of financial instruments to be taxed.

A more comprehensive base of FTTs, such as Feige's (2000) Automated Payment Transactions have an even larger ambition of integrating all the taxes. Crisp proposes a 0.5 percent rate on US$1,000 trillion of bank payments (said to apply to the United States in 2002), for a revenue of $5 trillion comfortably in excess of twice the current tax revenues.

2.3.3 Bank Debit Taxes (Covers transactions on debits, credits, payments etc.)

The transactions taxes that have actually generated the biggest revenues in practice have had a much more limited base. The most important of these have been in Latin America, where they have generally been introduced for revenue purposes. Their history is somewhat marked by fluctuations of fortune (Coelho and others 2001; Kirilenko and Summers 2003; Baca-Campodo´nico, de Mello, and Kirilenko 2006). Revenue from the Latin American bank debit taxes has varied widely, but has typically been of the order of 1 percent of GDP. The highest revenue achieved in relative terms was the 3.4 percent of GDP reached in Ecuador's short-lived Impuesto a la Circulacio´n de los Capitales ICC (1999–2000), which was, however, creditable against income tax for which it had been intended as a replacement.

The biggest bank debit tax in absolute terms, Brazil's unpopular CPMF ("cheque transaction tax"), dating back to 1993, had levied a charge 0.38 percent (originally 0.25 percent) on all withdrawals from checking accounts and raised as much as US$10 billion per annum or about 4 percent of total government revenue. This tax expired in December, 2007 (though another transactions tax known as the IOF was retained, albeit subject to modifications during 2008). The much higher tax rate of 1.5 percent was imposed by Venezuela in its bank debits tax of 2007, but was limited to debits on behalf of enterprises (with individuals exempt) (Salon, 2007).

Colabella and Coppinger (1996) were more ambitious for the revenue of the so-called WXT bank debit tax that they proposed. Its base was to be limited to non-debt generating withdrawals from banks, but they proposed the rather implausibly high rate of tax of 5 percent on this base, easily sufficient in their view to compensate for the abolition of all other taxes.

It's also worth noting that in Africa besides South Africa which has a FTT on stocks, we have Angola which has just introduced the FTT on all financial transactions, Gabon which has an FTT levy on remittance transactions, Zambia on savings, and Zimbabwe on stocks.

Interestingly not all bank debit taxes have had a revenue purpose. The Indian Banking Cash Transactions Tax of 2005–09, imposed at a rate of 0.1 percent on cash withdrawals from banks, was said by the finance minister to have "served a very useful purpose in enlarging the information system of the Income Tax Department." Its withdrawal was attributed to the relevant information being available through "other instruments introduced in the last few years"; it had yielded little more than 0.01 percent of GDP.

2.4 Case studies on FTT

The case studies included in this study cover both developing and developed countries and draw out important lessons on how these taxes can be successfully implemented as revenue raising tools. The case studies also focus on how to avoid potential pitfalls. In this section we explore three case studies, two at country level-Argentina and United Kingdom, and one at regional level-European Union. Analysis of the three case studies also highlights the underlying characteristics of: tax rate, market impact and stability, implementation costs, regulatory effect, evasion, ring-fencing funds and vested interest.

2.4.1 Case for Argentina-FTT

Argentina was the first country in Latin America to introduce FTT at a time of fiscal distress. The tax was introduced in 1976 at the rate of 0.2% and current rate applicable is 0.6%. This tax is levied upon debits and credits in checking accounts, and transactions that "due to their special nature and characteristics" are similar or could be used instead of a checking account (e.g., payments on behalf of third parties, procedures for the recovery of values or documents, drafts and transfers of funds made by any means) when these transactions are performed by entities regulated by the Financial Entities Law. Transfers and deliveries of funds are also subject to this tax, when these transactions are made through organized systems of payment substituting the use of checking accounts.

The general rate of the tax is 0.4%, and up to 37.5% of the tax paid may be credited against the income tax, the presumed minimum income tax or the value added tax liability. A rate of 0.8% applies to transactions considered a substitution of the use of a cheque account. In terms of collection mechanism, all financial institutions as long as they are licensed to handle financial transactions act as collection agents (this issue is further discussed in section 2.4.1.2).

2.4.1.1 Base and Tax Rate of Argentina's FTT

The base of instruments covered include debits in bank and savings account, payments through any substitute payment system except payroll, and fund transfers. Currently, the tax is levied at the statutory rate of 0.6 percent and covers a number of exemptions which include an extensive list of exemptions for bank debit taxes, including short-term interbank transactions (for those carried out within a day), financial flows of the administration of pension plans, credits originating in exports and the acquisition and redemption of shares of mutual funds (Baca-Campodonico et al 2006:20).

2.4.1.2 Collection method of Argentina's FTT

All financial transaction taxes are collected by banks and other financial intermediaries - these are legally obliged to collect the tax. Seventy (70) percent of all revenue goes directly to the Central Government and 30 percent is ring-fenced for local governments.

2.4.1.3 Evidence on avoidance for Argentina's FTT

The use of foreign accounts by Argentine resident taxpayers has become extremely common, especially to neighbouring Uruguay. To minimise tax payments, agents avoided depositing cheques by endorsing them and passing them along to creditors. Cheques (especially bearer cheques) circulated repeatedly, without ever being presented to the bank for settlement. For this reason, cheques can now only be endorsed once.

2.4.1.4 Legal Basis

Argentina's financial transaction tax was created by Law 25,413, which was enacted on March 24, 2001. This law is regulated by the government and the Automated Financial Improvement Programme (General Revenue Service). This law ensures that the tax is paid, if not, the firms concerned banks which collect the tax revenue are penalised.

2.4.1.5 Summary

Argentina has a long history of FTTs, often implemented to raise revenue following economic or financial crises. It is a good example of the relationship between tax productivity and rates, as its lowest levels of productivity can be found during times where rates were particularly high (Baca-Campodonico et al, 2006). In 2009 bank debit taxes represented 11 percent of total tax revenue – the third largest source after income tax and VAT.

2.4.2 United Kingdom

Although the United Kingdom has been strongly opposed to the European Union implementing a financial transaction tax, the Kingdom has a long history of applying tax on financial transactions, dating back to physical stamps on documents pertaining to the transfer of legal ownership. In the modern context the government applies a 0.5 percent tax to the transfer of shares in companies with a UK stock register. In 1986 the government introduced the stamp duty reserve tax (SDRT) at the same rate as the stamp duty. This was designed to cover the beneficial ownership of stocks without notification to the Registrar. Since today the majority of share transactions take place in this way through the stock exchange, the SDRT has become an important source of revenue.

2.4.2.1 Base and Tax Rate of UK's FTT

A stamp duty was introduced in the United Kingdom as an ad valorem tax on share purchases in 1808. Stamp duties are collected on documents used to effect the sale and transfer of certificated stock and other securities of UK based companies. The rate currently applicable on the UK FTT is 0.5%, and the tax has a few exemptions, such as: registered charities; members of the London Stock Exchange which are registered as intermediaries – including all investment banks and algorithmic traders – when they trade in the securities for which they make a market; and member firms of the London International Futures and Options Exchange (LIFFE) – when they trade to hedge equity options positions or meet delivery obligations following the exercise of equity options.

2.4.2.2 Revenue potential of UK's FTT

Revenue from stamp duty has been significant and stable over many years. Revenue collected is a function of share prices, share quantity and turnover and thus reflects the development of the stock market. Stamp duty revenue growth was much higher than that of other taxes in the stock market boom years from 1997 to 2001 but declined from 2002 to 2004 (Schulmeister et al, 2008:25). In the fiscal year 2005/06, revenue stood at approximately £3.4 billion, which accounts for 0.7 percent of total tax revenues.

2.4.2.3 Collection method of UK's FTT

Historically, the UK stamp duty tax collection mechanism has generally worked well because of its self-enforcing nature: documents required a stamp to be legally binding, and so the parties were compelled to pay the tax to receive the stamp. Today, however, collection is carried out electronically so physical stamps are no longer used. The costs of collection are low: only 0.21 pence per pound collected. In contrast, income tax costs 1.24 pence and corporation tax 0.76 pence per pound collected (HMRC, 2009).

2.4.2.4 Evidence on avoidance for UK's FTT

In contrast to some other financial transaction taxes the stamp duty cannot be avoided by trading overseas as it does not by itself remove the need to make a transfer of ownership legally binding, and hence does not shrink the tax base for the UK securities transaction tax.

Tax avoidance has also been restricted through the introduction of a special higher tax rate in 1986. This provides a strong disincentive for agents not to use methods such as long-term leases that may otherwise have avoided concluding the transfer of ownership and so incur the stamp duty. In the case of securities transfers, a legislative response has been to impose a higher rate of tax on transfers into a system, which allows subsequent transfers to be made without tax (Coelho et al, 2001). To reduce their tax liability, investors in UK equities must trade in closely related but not identical securities, or must reduce their volume of trading.

2.4.2.5 Legal Basis

Stamp duty was first introduced in England on 28 June 1694, during the reign of William and Mary, under "An act for granting to their Majesties several duties upon vellum, parchment and paper". This tax similar to the one used in Argentina is used to ensure that the tax revenue is collected and if not, penalty is imposed.

2.4.2.6 Summary

The UK stamp duty on shares raises stable and substantial revenue for the Exchequer without compromising the vitality of the London Stock Exchange. It is a good example of the low cost of implementing FTTs and the relative ease of enforcement.

2.4.3 European Union FTT

Whilst most of the financial transactions that have been implemented have been at national level, the European Union financial transaction tax (EU FTT) is the first concrete regional transaction tax proposal made in the World by the European Commission to introduce a financial transaction tax (FTT) within some of the member states of the European Union initially by 1 January 2014, later postponed to 1 January 2016 and then 2017.

2.4.3.1 Base and Tax Rate of EU's FTT

The tax is to be levied on all transactions on financial instruments between financial institutions when at least one party to the transaction is located in the EU. It would cover 85% of the transactions between financial institutions (banks, investment firms, insurance companies, pension funds, hedge funds and others). House mortgages, bank loans to small and medium enterprises, contributions to insurance contracts, as well as spot currency exchange transactions and the raising of capital by enterprises or public bodies through the issuance of bonds and shares on the primary market would not be taxed, with the exception of trading bonds on secondary markets (Kovacheva, 2011).

2.4.3.2 Revenue potential of EU's FTT

Naturally, estimated revenues may vary considerably depending on the tax rate but also on the assumed effect of the tax on trading volumes. An official study by the European Commission suggests a flat rate of 0.01% tax would raise between €16.4bn and €43.4bn per year, or 0.13% to 0.35% of GDP. If the tax rate is increased to 0.1%, total estimated revenues were between €73.3bn and €433.9bn, or 0.60% to 3.54% of GDP (European Commission Report, 2011).

The official proposal suggests a differentiated model, where shares and bonds are taxed at a rate of 0.1% and derivative contracts, at a rate of 0.01%. According to the European Commission this could approximately raise €57 billion every year (Kovacheva, 2011). Much of the revenue would go directly to member states.

The levy that 11 Eurozone countries are expected to introduce could raise as much as €35bn a year once the tax is fully operationalized.

2.4.3.3 Collection method of EU's FTT

The choice of collection methods for EU's FTT could be simplified as being a choice between (1) a model based on self-administration and delegation of collection responsibilities (declarations and payments submitted by the financial institutions) for all the types of financial transactions and on all markets and (2) a model based, where possible, on financial infrastructure (a more centralized approach) for certain types of financial transactions and markets, leaving the possibility of implementing the self-declaration system for the rest. The main advantages of the first model are ease of implementation in the short term, relatively low administration costs, and universality, while the main disadvantage is lower level of monitoring and therefore possible revenue losses. The second model has the advantage of providing more (cross-) checking and the possibility of automating and integrating certain processes, while it would probably imply higher (initial) administration costs and not cover all transactions. At the request of the European Commission, Ernst and Young delivered in October 2014 a report on collection methods and data requirements for the FTT.

2.4.3.4 Evidence on avoidance of EU's FTT

Because of the high mobility of financial transactions and in order to help mitigating potential tax avoidance, it has been proposed by EU members that the FTT should be applied on the basis of the residence principle. To further minimise the risk of relocation of transactions, while maintaining a single reference to "establishment" for ease of application, this principle should be supplemented by elements of the issuance principle. Thus, for transactions in certain financial instruments, the persons involved should be considered established in the participating Member State in which the instrument has been issued or the financial transaction made.
The EU FTT proposal also states that the minimum tax rates which will be applied should be set at a level sufficiently high for the harmonisation objective of a common FTT to be achieved. At the same time, they have to be low enough so that delocalisation risks are minimised.

2.4.3.5 Legal Challenges

In the case of international or regional taxes, these raises institutional questions and questions of international law. It's important to note that national taxes are already embedded in an established institutional framework (tax offices etc.) and there is a general tax jurisdiction. At an international or regional level these do not exist yet.

2.5 Pro's and Con's to implementation of an FTT

Besides its direct benefit in raising predictable and substantial revenues, FTTs are expected to slow the rate of speculation in currency and security markets, which can make them less prone to volatility. A number of developed and developing countries have already implemented FTTs on the domestic level to generate funds for government use, in addition to the EU proposing a region-wide FTT (Williams, 2015).

Furthermore, an international FTT has been proposed as a possible partial solution to meet developmental challenges. According to a 2012 Oxfam report for the UNFCCC, if the EU is able to implement an FTT across the EU for the eleven countries who were considering it, it would generate about US$ 510bn in funding (Oxfam, 2012). While it might likely be at the discretion of the funding countries to decide where the funds will go, an FTT would be a big boost to provide a stable source of development finance more broadly. However, the talks on the implementation of this FTT in Europe have dragged on since 2011 as the interested EU member states struggle to agree what instruments should be covered and at which tax rate (Reuters, 2016a).

2.5.1 Pro's of an FTT

There are a number of advantages to using a financial transaction tax. Firstly, in terms of adequacy, the UN High Level Advisory Group on Climate Change Financing (AGF) expects about US$ 716billion in revenue globally could be raised (Oxfam, 2012). Secondly, there is a strong predictability of funding, provided the revenues are earmarked. Thirdly, it is both technically feasible, given its implementation in numerous domestic markets, and politically feasible, as it has a strong level of support in many countries including the EU states (Oxfam, 2012). Not only have developed countries adopted FTT in their domestic markets but African countries like Angola, Gabon, South Africa, Zambia etc, have them in place as well, which demonstrate FTT's wide level of acceptance.

2.5.2 Con's of FTT

While an attractive option for raising revenue for development, there are some downsides too. Despite the FTT having been implemented successfully in a number of domestic financial markets, there are obstacles to overcome when implementing an FTT on a global level. Some domestic financial systems may not be politically willing to impose such a tax or be ready at the time of implementation to administer the tax. For example, the EU-wide tax itself has been postponed a few times due to opposition from some member countries like UK (Christie and Brunsden, 2011). A global tax is bound to invite disagreements from some countries. Agreement on coordinated tax implementation by major parties such as the EU and the US could encourage others to do the same (Burmanet al., 2015). Designing a coordinated FTT would be challenging; for example, Parties would have to agree on whether the tax would be applied universally on all transactions or just specific trades and how. Ideally the cost of the FTT would be on the market makers, such as institutions, instead of the individual consumers (Burman et al., 2015).

Despite the downsides of an FTT, it's important to note that a globally or regionally coordinated FTT holds potential for regional or international resource mobilisation initiatives. With its implementation already in a number of domestic markets, the FTT could present an opportunity for finances to fund regional or international projects.

2.6 Summary

In summary, here are some key elements of FTT's:

- It is not unusual for financial transactions to be taxed in some form or other – this ranges from the duty on share trades in the UK, to the generalised levy on financial transactions in Argentina which covers payment transactions as a financial transaction tax;
- Where FTT's have been levied, financial markets have generally adopted them with no major repercussions;
- FTT's raise substantial amounts of revenue;
- In most cases, this income is collected electronically at the point of settlement with minimum cost to the governments; and
- Evasion has not proved a serious problem.

One of the key points that emerge from this review of literature is that it is surprising that most of the financial transactions are not yet being taxed. Given that these transactions form part of the largest segment of the financial market in the world, a levy on FTT would be expected to raise substantial amounts of revenue provided a suitable collection mechanism could be designed at the point of transaction or settlement. With the tax designed at an appropriate low rate, it would not have an adverse impact on the day to day operation of the market. The revenue could then be mobilised to such ends as the financing of development.

Based on this summary, we present in the following sections trends and a proposal for SADC Member States' FTT to jointly implement a very small levy on international payment transactions and collect the proceeds using existing systems of electronic settlement.

3. Trends of Financial Transaction Taxes Since 2008

3.1 Introduction

The recent economic turmoil has generated renewed interest in a financial transactions tax (FTT). While such a tax will be vigorously opposed by the financial industry and those with selfish interests, it offers a very attractive mechanism for raising revenue that is arguably efficiency-enhancing. Calculations based on 2000 trading volumes showed that a set of scaled transactions taxes, imposed on transfers of stock and other financial assets, could raise more than $100 billion a year, even assuming large reductions in trading volume.

This section briefly reviews the trends for a financial transactions tax since 2008, and also shows how the revenue from such taxes has been used for development.

3.2 Trends of FTT Since 2008

Since the outbreak of the recent economic crisis, interest in a financial transactions tax (FTT) has increased markedly. Over the last few years, new reports and campaigns have been launched to promote discussion over the feasibility and desirability of some form of globally coordinated financial transactions tax. These include the 'Robin Hood Tax' campaign, an initiative launched by a coalition of civil society organizations, the publication of a major study by the Leading Group on international financial transactions and development, and contributions from the UN Secretary-General's High-level Advisory Panel on Climate Change Financing, the International Monetary Fund (IMF), the European Parliament and the EC. UNDP's 2011 Human Development Report (HDR), "Sustainability and Equity: a Better Future for all" also looked at this issue and advocated for the global implementation of an FTT as a financing mechanism for human development. As indicated in section 2.4.3, in October 2011, the EC proposed the introduction of a European Union FTT within the 27 EU member states by 2014. The tax proposed charging financial institutions 0.1 percent against the exchange of shares and bonds and 0.01 percent across derivative contracts. 30 Articles and opinion pieces have also emerged against the idea. This financial transaction tax as indicated in the preceding chapter is scheduled for operationalisation in January 2017.

Whilst the proposals currently under discussion (e.g., EU FTT) are conceptual successors to the James Tobin version of Tax first floated in the 1970s that was devised to cushion exchange rate fluctuations. More recent discussions have centred on the potential of such taxes to raise resources for development or other purposes. In addition, there has also been a move from using an FTT as a national instrument for raising revenue to regional or global initiatives of using this tax. The use of the FTT at regional or global level has to a larger extent been attributed to new technological initiatives of settling financial transaction e.g., through real time gross settlement system and infrastructure on clearing settlement of cheques or payment instruments which are safe and more efficient.

3.3 Estimated Revenue of the FTT's

Estimates as to the amount of revenue these taxes could generate at a global level vary widely due to differences in proposed tax rates and differences in the financial transactions covered/not covered by the tax. The UN estimates that a coordinated 0.005 percent tax on all the major currencies would raise approximately US$33 billion each year (United Nations 2009). The European Parliament resolution on innovative financing (2011) estimates that a low-rate FTT could, with a large tax base, yield nearly €200 billion per year at EU level and US$650 billion at global level.

The Leading Group's 2010 report, "Globalizing Solidarity: The Case for Financial Levies" analysed various forms of tax on financial transactions against several key criteria and it concluded that a centrally collected FTT of multi-currency nature would be "the most appropriate source of revenue to fund public goods and share the wealth generated by globalized economies." The proposal enjoys a lot of support from a number of developed and developing countries, some of which have signed a political declaration in support of the Financial Transaction Tax.

3.4 Summary

In summary, it is important to note that various forms of FTT have been in effect for some time and more have also been implemented by a number of countries since 2008. Examples of these countries include several G20 countries, Latin American countries, the Republic of Korea, Hong Kong SAR, India, the United Kingdom, and from SADC region, Angola, South Africa, and Zambia. In these circumstances, it is not feasible to analyse the projects which have been financed using resources generated at regional or international level as this type of an instrument has not been implemented by either the international or a regional community. However, at national level there are a number of examples where revenue generated from an FTT has been used for public good, e.g., Zambia – where the revenue has been used for developing the health sector.

4. SADC's Financial Transaction Tax Proposal

4.1 Background

SADC's proposal of taxing financial transactions such as those settled through international payments' Society for Worldwide Interbank Financial Telecommunication (SWIFT) is based on the fact that this option has a strong potential in generating huge amounts of revenues for regional projects, but does not apparently represent a heavy burden to taxpayers. These taxes have been used by a number of countries throughout the world starting with the United Kingdom's stamp duty tax which was first introduced in 1634, and the United States of America, where a two-cent tax was introduced on bank cheques to finance the Spanish-American war. Similar taxes on financial transactions have also been introduced in less developed countries of Latin America, Asia, and indeed, Africa.

Figure 2 "Global Experience of Financial Transaction of Annex 1," shows that the financial transaction tax has been used by different countries all over the world. In current practice, this kind of tax relates to more modern security transfer tax, bank debit tax, payment transaction tax and the "Tobin Tax", named after James Tobin who proposed it to prevent speculation in capital markets.

The burden of the taxpayers would be quite negligible when one considers that, commonly, the rates have been levied at between 0.1% and 0.05% of the value of the transactions or funds transferred. By contrast, ordinary stamp taxes similar to the one applied by the United Kingdom government would range between 3% and 10%, while value added tax rates are even at 10%-15%.

4.2 Relevance and Potential of SADC's Proposal

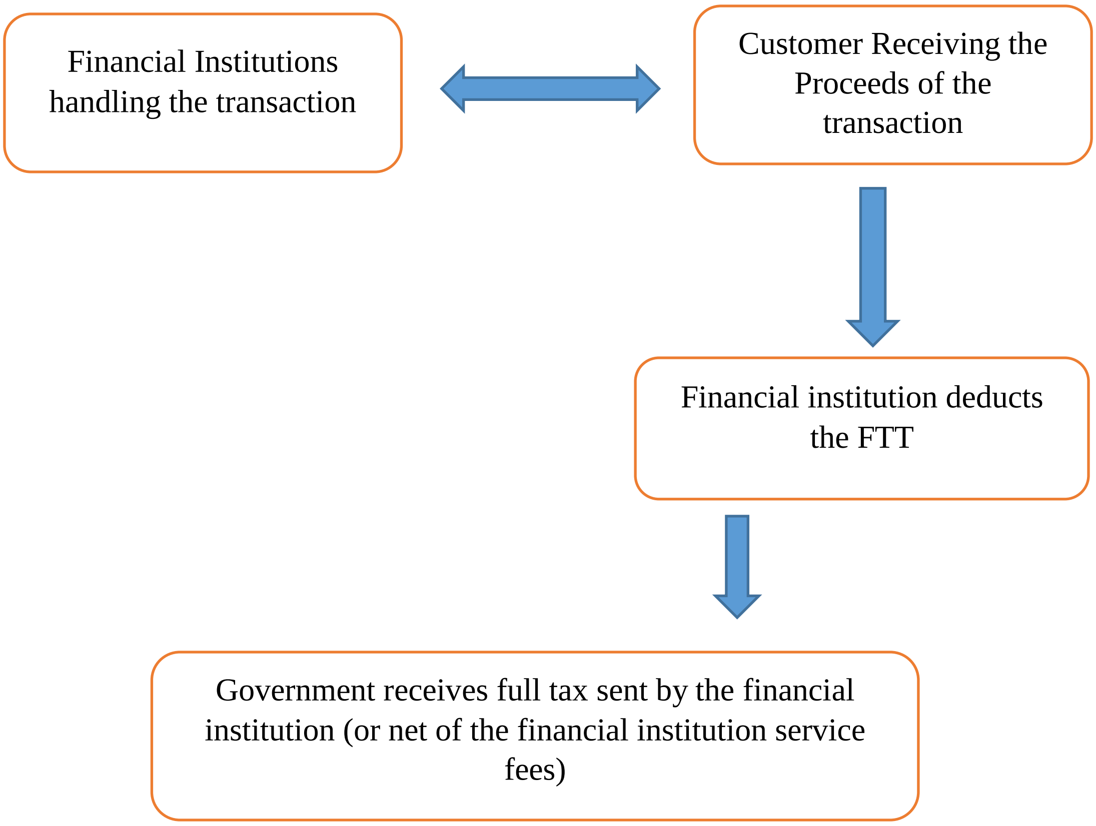
The significance of SADC proposal of tax on international payments which are settled through SWIFT is best demonstrated by studying the Latin American experience. In the face of fiscal challenges and harsh economic situations, these types of taxes may have presented the Latin American countries with a convenient tax handle because it takes advantage of financial institution's sophisticated accounting systems, thus, simplifying tax collection.
The tax is viewed as a suitable measure to raise needed revenue amid high budget deficits, economic constraints, hyperinflation and bailout of financial institutions. As such, financial transactions taxes have been used to improve the fiscal standing of the said countries. These have also been useful sources of public goods (i.e., health, social welfare and calamity funds) during conditions of fiscal distress. The tax has since become an important source of federal government tax revenue in many jurisdictions around the world. In 2002, its share to total tax revenues registered 12.7% in Venezuela, 9.6% in Argentina, 6.1% in Brazil, and 5.3% in Colombia. Furthermore, United Kingdom has also been generating huge revenue from stamp duty ever since it was introduced.

4.3 Design of SADC's FTT Proposal

In many countries throughout the world, financial transaction taxes have been implemented on a time bound basis. The tax has also been re-imposed more than once to respond to fiscal challenges. In the process, many features have been added to make the tax more efficient such as granting exemptions to financial transactions, financial markets, and entities such as treasury and other government departments.

For SADC, it is proposed that the financial transaction tax apply on international payments settled through SWIFT and any other formal means such as MoneyGram, Western Union, and Post Office. Under this proposal if a single rate of 0.1% was implemented, it would translate to only 10 cents for every US$100 transacted. In contrast, if the value added tax of say, 12%, was applied, this would translate to US$12 for every US$100 settled through SWIFT. The idea for a single rate is to promote administrative simplicity for the international payment transaction tax as well as to avoid issues of relocation of transaction from one region to another. Since the tax comes from international payment transactions settled through SWIFT and other formal financial channels, its collections could actually be implemented by the financial institutions where the accounting systems are well in place. Based on this, collection and administration is actually outsourced and the financial institutions could be compensated for their role, or this could be part of their contribution to the regional integration agenda of SADC (see Figure 1).

Figure 1: Collection Mechanism of Revenue on SADC's FTT



The proposal is different from other taxes because it will operate only under a trigger mechanism based on the SADC regional financing gap. Member States could set the trigger at less than US$10 billion of resources in reserves for SADC Regional Community. This means that if the resources for SADC regional projects register resources at US$10 billion, the SADC FTT will not be in effect. Correspondingly, when the resources for SADC regional projects falls below the US$10 billion mark, the SADC FTT should automatically be imposed until the US$10 billion mark is reached.

4.3.1 Proposed Exemptions on SADC's Proposal of FTT

In order to achieve the goal of mobilising resources to support regional projects, a number of exemptions may be made based on lessons learned from the experience of other countries which have imposed financial transaction taxes. These exemptions may include:

- Local payment transfers;
- International payment transfers settled through SIRRES; and
- Inter-bank clearing and inter-bank transfers to ATM operations.

Some anti-tax avoidance measures may be embodied in the said proposal such as the prohibition of re-endorsement of cheques if the tax applies only on final settlements. Otherwise, the tax should apply on each endorsement of a single cheque.

4.3.2 Revenue Potential and Sensitivity Analysis of SADC's FTT Proposal

The tax yield may be approximated using the values of international payments from 15 SADC Member States settled through SWIFT as a proxy variable. This is thought of as a conservative estimate because payments settled through Western Union, Money Gram, Post Offices and indeed credit card and debit cards have not been included.

The total gross amount of international payment from SADC Member States settled through SWIFT in 2015 amounted to US$659.1 billion. Multiplying this value with the rates between 0.1% and 0.025% shows that this tax alone would yield reasonably huge sums of revenue for SADC regional projects. For instance, if a rate of 0.1% was used, this could raise approximately US$659 million in absolute terms. The major part of these substantial amounts of the revenue, depending on the assumptions about the tax base of transactions would be collected from taxing transactions in international payment transactions settled via SWIFT. These estimates are based on the assumption that the entire regional value excluding all inter-bank settlements that are being settled in ZAR through the regional Real Time Gross System called SIRESS-SADC Integrated Regional Electronic Settlement System are excluded.

Furthermore, levying a tax of 0.05% on the cross-border payment transaction could still yield an amount of USD 329 million annually (see Table 1). Proponents argue that bank transactions are an obvious target because of the size and growth of the financial sector markets, although it remains unclear why market size would be an appropriate justification for imposing a tax. For instance, from 2013, when the proof of concept was tested, to 2015, annual cross border payment transactions settled through SIRESS had risen exponentially from 0 to US$ 2 trillion in just under a period of three years. This shows that FTT on cross border payments could generate significant amounts of revenue of funds since the base of transactions appear to be reasonably broad.

The potential tax revenues of such taxes would be asymmetric from a geographical point of view. In the SADC region, most revenues from the cross border payment financial transactions tax would be collected in countries with significant financial centres, while revenues in most other countries would be much lower. One might argue that while all SADC countries would introduce the tax and carry some of its burden, the tax incidence might fall heavily on a few countries with large financial centres like Mauritius and South Africa. However, the economic distortions in terms of reduction in trade volumes and risk of relocation of financial transactions due to the tax might be strongest only if the tax rate was pegged higher than the prevailing tax rates and also if the tax rates imposed on the financial transactions are not harmonised across Member States of the regional block. This asymmetry points to the need for regional solutions on the harmonisation of the tax rate, but also puts forward the question on who should collect such a tax and whether or not an agreement to share the revenues regionally can indeed be found

Table 1: Data on SWIFT Transactions and Values in US$ Billions 2015

Country	Total Value of Transaction (Jan-June 2015)	Total Value of Transactions (July-Dec 2015)	Total Value of Transactions (US$ Billions)	At 0.1% (US$ Billion)	At 0.05% (US$ Billion)	At 0.025% (US$ Billion)
Angola	40.084	35.868	75.952	0.076	0.038	0.0038
Botswana	6.973	4.652	11.625	0.012	0.006	0.0006
D.R.Congo	7.399	7.627	15.026	0.015	0.008	0.0008
Lesotho	0.864	0.942	1.806	0.002	0.001	0.0001
Madagascar	1.796	1.888	3.684	0.004	0.002	0.0002
Malawi	1.851	2.101	3.952	0.004	0.002	0.0002
Mauritius	136.022	115.937	251.959	0.252	0.126	0.0126
Mozambique	5.818	5.919	11.737	0.012	0.006	0.0006
Namibia	2.988	3.946	6.934	0.007	0.003	0.0003
Seychelles	1.609	1.339	2.948	0.003	0.001	0.0001
South Africa	112.659	113.169	225.828	0.226	0.113	0.0113
Swaziland	1.705	1.621	3.326	0.003	0.002	0.0002
Tanzania	7.47	8.056	15.526	0.016	0.008	0.0008
Zambia	8.876	8.65	17.526	0.018	0.009	0.0009
Zimbabwe	5.402	5.851	11.253	0.011	0.006	0.0006
				0.659	0.330	0.0330
			659.082	0.659	0.329	0.165

Source: SWIFT 2016 Data.

Swift Confidentiality Close: This information contains SWIFT or third-party confidential information and should not be disclosed outside SADC without prior written consent of SWIFT

4.3.3 Incidence of SADC's FTT Proposal

Since most of the cross-border transactions are high value transaction, this therefore means that a large part of the burden of an FTT would fall on owners of financial transactions. Like any tax on capital income, the distribution of this effect would likely be highly progressive: High income individuals possess a disproportionate share of financial assets, and so would contribute more to the financial transaction tax as these would transact more frequently and also transfer substantial amounts.

4.3.4 Adverse Effects of SADC's FTT Proposal

Financial sector markets have a high degree of mobility. For this reason there is a danger that relocation and tax avoidance in response to the tax might be substantial. Since the transactions tax does not differentiate between different segments of the market the reaction might even depend on the characteristics of single product markets. This might be a disadvantage compared to more targeted instruments like levies on leverage and risk-taking.

Recent research finds indeed that the number of financial transactions declines in markets where a transactions tax is levied (i.e., removal of the funds in a particular market and conducting of transactions in other ways to avoid tax). In general, this coincides with a reduction of liquidity in these markets. However, the effects of this decline in transactions and market efficiency remain subject of debate. Various studies show that the effects of transactions taxes could depend on the microstructure of markets. The microstructure is simulated by allowing for different groups of traders on the market. Given that the markets that could fall under the scope of the tax are very diverse, the effect of the tax might be very different across relevant markets. Essentially, the debate on financial transactions taxes boils down to the question of the influence of transaction costs on trade volume and price volatility, and whether they can serve as a corrective device to reduce the number of allegedly harmful short-term traders. These effects are in general the same for a transactions tax that is levied only on cross border payment transactions. The difference to the FTT is that the current option of the proposal would be levied at a much lower rate of between 0.1% and 0.025%. To avoid possible tax evasion and relocations towards non-taxed markets, an FTT would have to be coordinated at a regional level.

Interestingly, despite some of these drawbacks, financial transactions taxes or economically similar duties are levied in some countries. An example is the stamp duty in the United Kingdom which is levied on transactions on stocks of companies registered in the UK.

4.3.5 Likely Effects of SADC's Proposal of FTT on equity and income distribution

The analysis of the incidence of taxes is important when evaluating the feasibility of FTT. In this context the burden could fall on actors making the financial transactions in countries that are participating in the mechanism. The tax could be a very small charge that would, given the very large daily volume of financial transactions, raise quite substantial sums for regional projects and have a minimal impact on prices for financial services and a very low administrative cost. A simple argument against the fairness of the tax points to the fact that: the wealthy engage in far more financial transactions than the poor, especially non-cash transactions; the tax would therefore fall mainly on wealthy people, who will undoubtedly strongly oppose it. To this end the FTT can be said to be progressive (i.e., it taxes the rich proportionally more than the poor or less wealthy).

4.3.6 Administrative aspects on SADC's FTT Proposal

A review of a number of studies on FTTs shows that the administrative costs of collecting a financial transactions tax could be relatively low. For instance, Data from the United Kingdom (UK), where a stamp duty is levied, show that the collection cost is only 0.21 pence per pound collected. In contrast to that, for the income tax, the value is 1.24 pence and 0.76 pence for the corporation tax.

However, this levy is a pure FTT focused on securities only, and does not tax a wider range of financial transactions, such as cross border payment, bank credits and debits or currency transactions, for which administrative costs might be higher. Most current proposals assume a relatively small tax rate of 0.005% to 0.1% on the value of transactions. However, in many of these proposals the tax base and other administrative design features of the tax, such as, among others, the method of tax collection, its clearing, and its coordination, are not very clear. In general, the value of the transaction is supposed to be the tax base. This is however difficult for some financial products.

Beyond this specific issue of the tax base in case of FTTs, the general scope of such a FTT would have to be properly defined. In particular, a large part of financial transactions is not trades in securities, currencies or derivatives, but rather for example bank transactions such as cross border payments. Although debates about a FTT often do not particularly focus on such other transactions, from a systematic point of view there is not much evidence to support systematic discrimination between different types of financial transactions. Such possibly arbitrary differentiation would foster neither the efficiency nor the stability of the financial sector at large.

4.3.7 Collection Mechanism of Revenue from SADC's FTT Proposal

Just like cashless transactions across national payment systems are mostly processed electronically, there have been similar systems for international payment transactions for some time. Since banks and trade have a great interest in a secure process for their transactions, these systems are very secure. The most important are the European TARGET System (Trans-European Automated Real-time Gross Settlement Express Transfer System), the US Fed Wire and the British CHAPS (Clearing House Automated Payment System). These systems are used by practically all actors on the financial market.

The so-called S.W.I.F.T. System (Society for Worldwide Interbank Financial Telecommunication) was established years ago. This private network provides central banks with information on the process of financial transactions carried out by the finance market participants through SWIFT. Meanwhile, development has continued. The CLS Bank (Continuous Linked Settlement Bank) is functional since 2002,. The CLS is a corporation supported by 80 big banks word wide with the task of concentrating international payments even more, and to accelerate the processes.

By including the adequate software into these payment systems, the tax could be imposed fully automatically and with minimal costs. Therefore, the frequent objection that an imposition of the FTT would entail a bureaucratic effort and is difficult implement is meaningless. The tax is technically as easy as the automatic direct debit of account management charges on private accounts.

4.3.8 Legal challenges of SADC's FTT Proposal

A number of legal challenges exist to which attention need to be paid. These include: compatibility of such a levy with Article XI of the General Agreement on Trade in Services (GATS), which provides that WTO Members cannot apply any restrictions on international transfer and payments for current transactions relating to their specific commitments, would have to be further assessed. This legal difficulty will be less challenging if SADC has not yet made any specific commitments relating to financial transactions, including cross border payments and if these commitments relate to transactions with third countries, a cross border payment transaction tax could constitute a breach of the SADC's GATS obligations.

Furthermore, coordination among Member States of the community can prove difficult, reflecting different national interests as well as governance and accountability issues that exacerbate collective action problems. In such cases an agreement on implementation by all members of the regional block might have to be considered. SADC seems to be the natural forum for such coordination as it represents the main centres and has the critical mass, politically. Moreover, recent experiences regarding the efforts to tackle tax evasion at the G-20 level indicate that international or regional coordination on tax matters can be achieved. However, to reach similar agreements in this respect, it will be imperative to agree on the precise governance of alternative sources of revenue, whose merits must be compared to alternative ways of achieving that same goal, rather than assessing its added value in isolation.

Thus, in terms of the legal issues, it must be noted that while an agreement or protocol is required to implement an FTT at SADC level, this is already provided for under the Memorandum of Understanding on Cooperation in Taxation and Related Matters of 2002. This document sets out SADC policy on taxation as it relates to the ultimate goals of economic development and Regional Integration. It also appears in Annex 3 of the Protocol on Finance and Investment.

4.3.9 Governance of an FTT

Most existing innovative or alternative financing mechanisms earmark resources upfront for specific purposes, as is the case for the global health funds. There are perceived benefits in doing so. Policy makers argue that the earmarking helps build political support and attracts funds by establishing a clear link between alternative revenue and popular causes. This may come at a cost, however, since earmarking funds can limit policy space for channelling resources to defined priorities. Based on this SADC should consider channelling revenue generated from FFT through SADC regional development fund as this will make it possible to provide resources to SADC priority areas such as industrial and infrastructure development as per approved revised RSDP 2015-2020.

4.4 Summary of SADC's FTT Proposal

Table 2 gives a brief summary of SADC's FTT proposal as well as the timelines for implementation.

Table 2: Summary of SADC's FTT Proposal

Participating members	All SADC Member States
Taxable transactions	International payment transactions (excluding those settled through SIRESS)
Application principle	Firms and individuals
Tax	Tax rate between 0.1% and 0.025%
Payment	Payable at occurrence Payable by agent or party and if not paid they are jointly and severally liable for the payment Member States will have to lay down registration, accounting, reporting obligations to ensure payment Member States have to ensure record is kept for five years
Excluded entities	SADC Member States and in particular SIRESS
Excluded transactions	Capital market transaction (because our stock markets are still embryonic) Transactions within Member States and SADC region. Transactions with other or international institutions
Revenue potential	Roughly between US$659 million and US$165 million per annum
Taxation	Through Settlement system; or Direct taxation of financial operators.
Legal	Member States should develop an agreement based on Annex 3 of the Protocol of Finance and Investment
Opportunities	Low rate Solid and stable source of income No significant incidence Quick and easy to implement

5. Conclusion and Policy Recommendations

5.1 Conclusion

After reviewing available theoretical papers and empirical evidence this study conclude that a financial transaction tax could be a solution to SADC alternative sources of income, with the assumption that the SADC financial sector and in particular that which relates to the international payments is sufficiently large and could be potential source of stable income which will support regional programmes.

The reason is that the benefits are greater than the costs, and this is demonstrated by the following key elements of a Financial Transaction Tax:

- It is not unusual for financial transactions to be taxed in some form or other - this ranges from the duty on share trades in the UK, the tax on corporate bond trading in Germany and the generalised levy on financial transactions in Peru;
- Where FTT's have been levied, financial markets have generally adopted them with no major repercussions;
- FTT's raise substantial amounts of revenue;
- In most cases, this income is collected electronically at the point of settlement with minimum cost to the governments; and
- Evasion has not proved a serious problem.

One of the key points that emerge from this study is that the payment system is unusual for not yet being taxed. Given that it is the largest segment of the financial sector, a levy on FTT would be expected to raise substantial amounts of revenue provided a suitable collection mechanism could be designed at the point of settlement or transaction. With the tax designed at an appropriate low rate it would not have an adverse impact on the day to day operation of the market. The revenue could then be mobilised for regional projects.

5.2 Policy Recommendation

The following recommendation focusses on SADC introducing the FTT as one of the options of resource mobilisation and an overall strategy for developing the regional resource mobilisation framework.

Since the option has been found to be relatively easy to implement in addition to the fact that it can generate stable revenue, this study strongly supports the option for SADC countries to collectively implement a very small levy on financial transactions and collect the proceeds using existing systems of financial sector system (i.e., financial institutions collecting FTT at the point of transaction is executed or central clearing house.

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7. Annex

Figure 2: The Global Experience of FTT's