Tax policy for the financial sector receives special attention from many analysts. There are several possible motivations for this attention. Some policy analysts want to ensure neutrality for the financial sector, as compared with the taxation of other industries, arguing that undertaxation of the financial sector leads to an inefficient industrial mix. Many others, though, want to go beyond neutrality to tax the financial sector more than other sectors. The motivations range from a corrective, Pigouvian strategy of discouraging putatively “wasteful” speculation, to concern for the fairness of tax burdens, to the desire to gain access to a new revenue source for governments. There are also some analysts who advocate the imposition of a special “benefit tax” to fund the cost of potential future bailouts. Every one of these motivations became much more salient in the wake of the 2008-9 financial crisis, renewing concern about the taxation of the financial sector.

Putting these motivations into action requires a tax policy instrument. The idea of a financial transaction tax (FTT) was crystallized by the economist James Tobin. He advocated a tax levied on financial transactions in order to combat what he saw as excess speculation. In recent years, the idea of a financial activities tax (FAT) has supplanted the FTT among many tax policy experts. This tax takes the form of an addition-method, accounts-based value-added tax (VAT), through a base formed as the sum of profits and wages in the financial sector.

No matter which of these two taxation methods looks more attractive, both suffer from an important weakness. It is difficult for one country to enact such a tax without displacing financial activity out of the country to other untaxed jurisdictions. For this reason, discussion of these taxes for the European Union as a whole make more sense than the unilateral adoption of such a tax for a country like Canada—unless the United States were to adopt a similar measure.

In this policy forum, we present three articles on the taxation of the financial sector to guide the discussion in Canada. In the first article, Rita de la Feria and Richard Ness describe the progress on implementing an FTT in the European Union.
find it hard to defend the proposed FTT as compared with an expansion of the existing VAT for EU countries. In the second article, Michael Keen, Russell Krelove, and John Norregaard discuss the alternative of a FAT, conceived as an addition-based VAT applied to finance alone. After laying out the basic structure, they describe the key implementation challenges that such a FAT would face, including the definition of profits, resolution of the problem of border adjustments, and agreement on the definition of financial activities to which the tax would apply. Finally, in the third article, Pierre-Pascal Gendron tackles the taxation of the financial sector in Canada. He describes the current exemption under the goods and services tax (GST) and points out its shortcomings. He evaluates several alternatives, settling on a model derived from South African experience that would bring some (but not all) types of financial services into the GST system.

This policy forum was organized by my co-editor, Tim Edgar, who conceived it and coordinated the planning and preparation of these interesting pieces with their respective authors. I thank him and acknowledge those efforts.

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Editor