

# Taxation and the financial crisis

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# Tax role in financial instability?

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- Bias in favour of debt (leverage)?
- Tax and bank capital adequacy?
- Capital gains *versus* income (risky debt)?
- Tax havens and SPVs?
- Mortgage interest deductibility and below-neutral housing taxation?
- Arbitrage opportunities from derivatives?

***Tax was not a primary driver of the business model which led to the crisis .....***

***.... but may have reinforced it in various ways***

# What's special about taxation of the financial sector?

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- Difficulty in identifying financial income and categorising transactions for tax purposes
- Compromise nature of taxing capital income
- Accounting / regulatory / tax tensions
- High mobility of tax base
- Tax neutrality benchmark *versus* widespread financial market failures

# Lessons for taxing financial sector in the future

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- Take opportunities to address non-neutralities
- Response to market failures – primary tool is regulation, but tax may have a role, e.g. in addressing linkages between tax and risk-taking, and opportunities for tax and regulation to be mutually reinforcing
- Fiscal consolidation – gives opportunity to reduce distortions, reduce tax driven-arbitrage, reduce tax compliance risk

***Whether or not tax was part of the problem ....***

***.... it should be part of the solution***

# Taxing the financial sector – a repair agenda

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- Better access to and use of 3rd party information
- Building tax transparent tax compliance by banks
- Exploring potential for multilateral approaches to achieving better compliance
- Tackling international tax arbitrage

***Plenty of debate on new taxes levies .....***

***..... but also scope for repairing the current tax system  
alongside repair of the banking system***