Currency Transaction Levy (CTL)

What is it?

The Taskforce working group has considered a proposal for a Currency Transaction Levy (CTL). This is a nationally implemented levy on currency transactions – in effect a national tax earmarked for development uses in poor countries. As proposed, countries would adopt the levy on a voluntary basis, but it would then be applied on a mandatory basis to all trades in that country's currency, worldwide.

As proposed, the levy could be collected by large-scale foreign-exchange settlement systems, such as the Continuous Linked Settlement (CLS) Bank and SWIFT (Society for Worldwide Interbank Financial Telecommunication).

The proposed mechanism would use a tax rate of 0.5 basis points on transactions among four major currencies (US$, €, JPY, GBP). One estimate is that transactions between these and all other currencies, the tax would generate US$ 33 billion in annual revenues.

CTL proponents estimate that compliance costs would be low since the tax could be administered electronically. However, this would need to be confirmed by detailed feasibility testing.

Counties could coordinate their efforts to implement the tax, as they have done with the Solidarity Levy on Airline Tickets. Further detailed analysis would reveal whether this would create additional leverage and close potential routes for tax evasion.

Why is the Taskforce supporting it?

It is thought that, if widely supported, the CTL could generate significant, predictable and sustainable funds for health systems in poor countries. Total daily currency transaction volumes worldwide increased from $820 billion in 1992 to $3,210 billion in 2007. Feasibility and sustainability depends on further technical analysis of the projected benefits implementation and on countries' long-term willingness to collect the levy and to allocate CTL revenues to health systems.

The Taskforce has recommended exploring the feasibility of the CTL proposal, and assessing the likely impact on currency trading markets, as well as the effects of capital flight and competition between trading centres.

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