

## THE IMPACT OF BANK LEVY ON THE FOREIGN DIRECT INVESTMENT IN THE BANKING SECTOR

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### Abstract:

The introduction of additional public levies on the financial sector has been considered for many years in various forms. The first proposals for such instruments were formulated by J. M. Keynes and J. Tobin. The recent financial crisis has intensified the discussion at both the EU and national level on the possibility and consequences of an additional tax on financial institutions.

Additional taxation of the financial sector include bank levies, financial transaction tax and financial activity tax. Among EU member states, 17 have introduced a bank levy, while 3 have introduced a financial transaction tax.

One of the risks identified when considering introducing additional taxation of the financial sector is the loss of investment attractiveness, capital outflow abroad and the withdrawal of capital by foreign investors. Foreign investors take into account economic and political factors as well as business environment, when selecting the location of a foreign investment. Economic factors, which include also tax burdens play an important role in the choice of FDI location and thus foreign capital inflow to the economy. Tax increases can lower the return on investment and thus weaken the incentives to invest.

The aim of the article is to assess the impact of introducing additional taxation of the financial sector on the location of FDI in EU member states. The studies also aim to show whether taxation of the financial sector contributes to the withdrawal of foreign capital from that sector.

The article verifies the hypotheses:

**H1:** Taxation is an important determinant of FDI and the introduction of additional public levies on the financial sector reduces the inflow of foreign investment to the financial sector.

**H2:** Taxation of the financial sector resulted in changes in the structure of FDI inflows. The dynamics of FDI inflow to the financial sector decreased in comparison with FDI inflow to other sectors of the economy.

*Keywords: tax, bank levy, financial sector, foreign direct investment*