

Xavier Rolet, ECON Hearing, 2 December 2009, EU Parliament Stamp Duty – a UK Financial Transaction Tax

Intro

- Thank you Madam Chair for this opportunity to address the committee
- London Stock Exchange recognises the importance of the EU Parliament
- Pleased that these topics are being taken so seriously
- Hope that my contribution will be useful to your decision making

Stamp Duty is a UK transaction tax

- Talk to you about our experience as a market with a financial transaction tax
- UK is the only EU Country to with a significant tax on securities transfers¹
- Stamp Duty is levied at 0.5 per cent on equity and some other securities (some bonds)
- Levied at point of purchase
- Tax on the real economy- paid by companies and savers

Effects on the market

- The dampening effects on the UK market are significant and measurable.
 - The UK Institute of Fiscal Studies estimate Stamp Duty reduces turnover of shares by 20%²
 - Just halving the rate of Stamp Duty may raise share prices by 6.25%³
- All liquidity is vital – needed for efficient price discovery and investor returns
- Particularly in a Market where liquidity exists across many platforms
- As the EC noted - transaction taxes can increase volatility⁴

¹ Countries with a significant transaction tax on securities, London (0.5 per cent), Korea (0.5 per cent), Hong Kong Exchange (0.2 per cent), Australia (0.3 per cent), Taiwan (0.3 per cent), India (0.15 per cent)

² Stamp Duty on share transactions: is there a case for change?", Hawkins, M. and McCrae, J., *Institute for Fiscal Studies*, June 2002

³ Stamp Duty on share transactions: is there a case for change?", Hawkins, M. and McCrae, J., *Institute for Fiscal Studies*, June 2002

⁴ 3 September 2009, Commissioner Kovacs (for Taxation) written answer to a Parliamentary Committee

Effects on the real economy

- Effect of tax felt in the real economy by savers and companies looking for investment
- Cost of capital for companies seeking investment is significantly increased by Stamp Duty
 - UK Stamp Duty increases cost of capital by 4 - 12% depending on sector⁵. Greatest impact on high tech companies
- Cost for savers and investors is significant
 - In UK, Stamp Duty takes 3.5% of the value of an average citizens life savings⁶.
- Reduces level of investment capital in the economy
 - Estimate abolition in UK would mean up to £6.4bn more investment capital pa⁷

EU does not experience excess trading

- The concept of transaction taxes set at behaviourally altering levels – Tobin taxes – is now popular
- Premise for Tobin tax is to dampen excess market activity
- BUT the EU does not have an excess - equivalent market cap but far less trading
 - US market cap \$12,281 bn – EU market cap \$11,311 bn⁸
 - US turnover velocity 245% - EU turnover velocity 91%⁹

⁵ Oxera, May 2007

⁶ Oxera, May 2007

⁷ Oxera, May 2007

⁸ WFE September 2009

⁹ January-September 2009

Other countries' experience

- **Sweden** – introduced 1% Stamp Duty on equity in 1984, doubled to 2% in 1986¹⁰
 - Share index fell 5.35% when news of the initial tax leaked
 - Fell another 2% on day of 1% tax introduction
 - Fell by another 1% on day of 2% tax introduction
- **China** - in May 2009 tripled Stamp Duty to 0.6%¹¹
 - Shanghai composite index lost 13% in week following introduction
 - Stamp Duty was abolished in April 2008 – the index rose 10%
 - This rise represented a increase in value of companies and investments

Conclusion

- Tobin taxes have clear and measurable effects on levels of market participation
- UK experience shows the effects on the real economy to be damaging
- EU trading does not need to be suppressed by a transaction tax
- Must avoid taxes which damage EU competitiveness by
 - Increasing cost of capital for the real economy
 - Damaging the attractiveness of the EU as a place to invest

¹⁰ KPMG Rebalancing the economy from debt to equity (2009) DRAFT

¹¹ KPMG Rebalancing the economy from debt to equity (2009) DRAFT